AMERICAN BANKERS Association JOURNAL

STOCK MARKET CONTROL
GOVERNOR BLACK DISCUSSES THE BILL WITH SENATORS TOWNSEND, COUZENS AND FLETCHER

May 1934

The Rebound—America's Financial Strength

Realization in Washington, by Mark Sullivan

Incredible Silver, by Neil Carothers

The Condition of BANKING

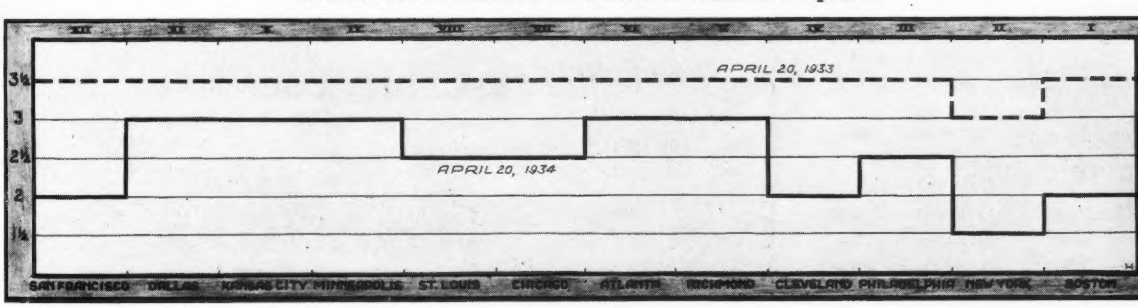
THE general condition of business and banking in the United States became more definitely clarified in the month of April than in any month in the past two years. Two controlling factors have come to the surface, clearly defined and easily explained.

The first is an increased and strongly maintained demand for consumers' goods in nearly all parts of the country, free from holiday or other special seasonal stimulus. The second is increasing identification and appreciation of the influences which are causing the failure of the durable goods industries to respond to the quickening impulse of better general business conditions in anything like the same proportion if, indeed, they are responding at all. Better retail trade has not only been promptly reflected in wholesale lines and in the industries dependent upon them, but the latter also report satisfactory orders for future delivery, indicating a confidence on the part of dealers in consumers' goods that the improvement in business shown in the trade of the first four months of the year is expected to continue. The distribution of this trade is such as to indicate that it is largely the result of Government spending in agricultural aid, public works and relief of unemployment, and a reflection of better conditions in the industries most directly affected by such expenditures. Much, possibly most, of the improvement is artificial, but there is enough of sound residue to demonstrate actual, fundamental improvement.

Undoubtedly the lag in heavy industry is the result of uncertainty as to future Governmental policies and the restrictions upon the raising of money for capital expenditures. Such was the declaration of a committee of the code authorities of heavy industries appointed by the latter at the Washington code conference in March, which published its report in mid-April. Every known element in the situation supports the views therein expressed. Whether a modification of the Securities Act, as has been suggested by this committee, would result in the early reëmployment of so many as five or six million workers may be debatable, but there is no question that the financing of heavy industry and especially of the buyers of durable goods is retarded by the Securities Act and the various proposals for the control of security exchanges. Nor can there be any doubt that heavy industry and long range planning of every sort are retarded by the political situation in Washington involving such issues as increased inflation by the silver route or otherwise, increased taxes, the tariff, soldiers' bonus, unemployment relief under the latest scheme, municipal bankruptcy, loans of Government funds to industry, a revision of the N.R.A. and codes under it and a revamping of the agricultural aid program.

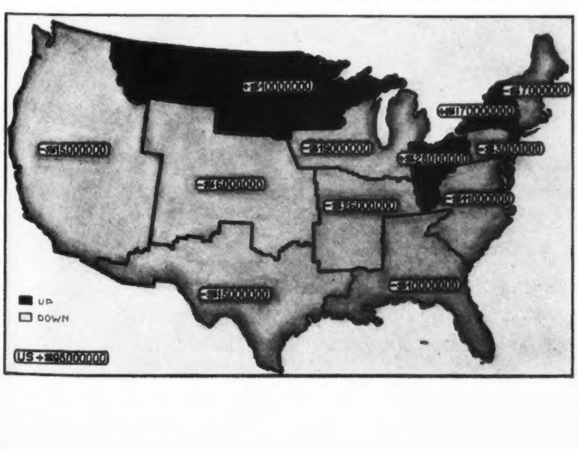
The strength in the consumers' goods market is demonstrated in reports which show much less of a post-Easter slump than usual—far less than had been anticipated. Comparisons with a year ago show largely increased trade but they may be misleading owing to the hangover of the banking holiday into April last year and a difference in the incidence of the Easter buying (CONTINUED ON PAGE 52)

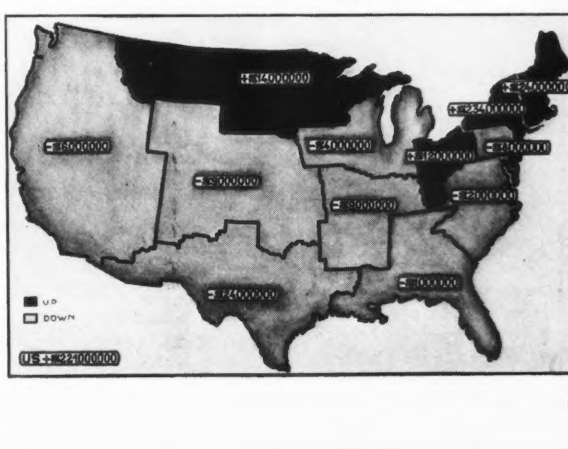
Discount rates of the 12 Federal Reserve banks as of April 20



Loans and Investments—CHANGES (March 14–April 11)—Deposits

By districts, from figures of reporting Federal Reserve member banks in 91 leading cities





ACME

MAY DAY

IN 1833 Robert Owen selected May 1 as the date for the beginning of the millennium. Perhaps from this small seed came the tradition of labor, on that day each year, to protest and celebrate.

May 1, 1934, finds unemployment of both labor and capital persistently widespread. The picture above shows Senators Borah, Walsh, Wagner and Davis listening to testimony on the Wagner Labor Bill.

Realities

May Day, Nineteen Hundred and Thirty-four, is a day of realities. For well toward four years the United States, like the rest of the world, has been going down into and coming out of an unprecedented business depression.

In the course of this experience it has carried on much experimentation in government, in finance and economic life generally—perhaps most of all in its banking and credit activities.

As a result of this experimentation it has accomplished some things of value, notably a will to recover and a thorough canvass of the means of recovery.

It has accomplished some needed reform. On the other hand it has made some, possibly many, egregious blunders. It has devalued the dollar and has otherwise tampered with its monetary system —whether uselessly or not need be no longer considered. It has built up a sizable burden of public debt—not unbearable but nevertheless burdensome. It has adopted sociological policies of the most serious import to American commerce, industry and finance which may or may not be permanent but which, for the time being, have probably reached their immediate limit.

All these are no longer matters of discussion, academic or otherwise, subject to adoption or rejection. They are realities of the present.

Further discussion of things past is as disturbing as it is useless. It is incumbent upon business men to accept what is past as water that has gone under the bridge. Business of the present and future must be conducted in accordance with realities and such are the realities of today.

UNFORTUNATELY, however, the realities to be faced are of the future as well as of the present, and this means that some of the principal problems which were before the American people a year or so ago are still before them unsolved.

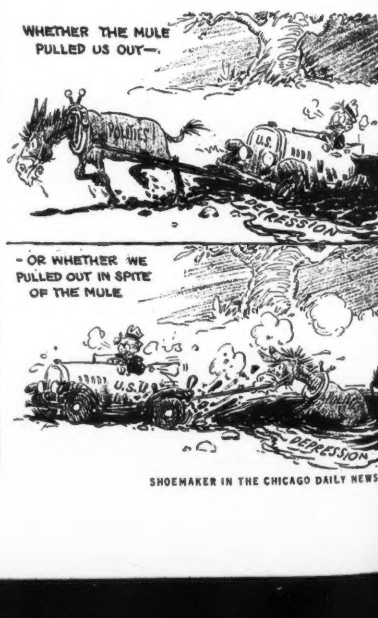
The agricultural situation, long heralded as the most important of the nation's difficulties, is essentially where it was. The prices of farm products have been lifted materially, and there is less discrepancy between prices of what the farmer sells and what he buys.

This, however, has been at the expense of several hundred millions of dollars in special taxes paid by American consumers, and it cannot last indefinitely. The fundamental issue is yet to be faced. Capital remains unemployed while yet

there are cries for more and still more credit. The heavy industries are reviving slowly if at all, while it seems probable that all that can be accomplished in the way of recovery in consumers' goods has been accomplished, at least until there is more decided revival in the basic industries. The country's credit system has been thrown out of gear by extraordinary lending of public funds and the subversion of the principal source of credit in the Reserve System, while credit machinery stands under the operation or threat of paralyzing legislation.

THESE are some of the more patent problems, and there are others. So far, ever since the beginning of the depression but especially in the past year or so, these problems have been dealt with in emergency measures. Month after month, sometimes day after day, new laws have been put into the statute books giving the Government this, that or the other power to deal with the situation. At the present time the Government, through six corporations—five of which are organized under the laws of one state, Delaware—can engage in any form of business activity from banking to sheep raising or the manufacture of electrical appliances. All of these legislative chickens are now coming home to roost. The stark reality of the situation is that the Government and the American people must now decide what they are going to do with them. Nor is it any longer a matter for discussion. The nation is tired of discussion, tired of experimentation. Enough returns are in to make it a matter for decision.

A Question that Will Never Be Settled



SHOEMAKER IN THE CHICAGO DAILY NEWS

KEYSTONE

President Roosevelt signs the Philippine independence bill as Elpidio Quirino and Manuel Quezon smile over his shoulder

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IT is just as well that these realities are to be faced—now. If emergency measures have failed to bring back prosperity over night, as they have, it is time the country was settling down to the idea that the situation is no longer one of emergency but one of gradual recovery under natural forces of recovery. Such a process is slow but it has the merit of being sure. These forces are already at work and the results are already apparent. Scrapping inefficient machinery is an indication of strength in an industry. It can be so in a recovery program. There is abundant evidence that if some of the emergency measures are discarded and natural forces are given more freedom to operate, greater results will be immediately realized. The capital market will certainly be revived if some of the restrictions placed or about to be placed upon it are removed. With the revival of credit for basic industries, which is now lacking because of legislative interference with the machinery of such credit, will come early recovery in many of the lines in which depression persists. Employment in the manufacture of consumers' goods is now very close to the 1923–1925 level. That in heavy industry will not average 70 per cent of the 1923–1925 level and in some lines it still hovers around the lowest point in the depression. The problem of agriculture is yet to be solved, but it is (CONTINUED ON PAGE 54)

AMERICAN BANKERS
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MAY 1934

The Rebound—America's Financial Strength

The Means of Recovery Are Here • Old Frontiers What New Frontiers?

WHEN the Treasury of the United States can call a billion dollars in 4¼ per cent bonds with the take-it-or-leave-it proposition of exchanging them for 3¼ per cent bonds or accepting cash, there can be no question as to the soundness of the financial position of the Federal Government. With member bank borrowings at the Federal Reserve at practically nothing and their excess reserves amounting to $1,400,000,000 there can be no question of the country's credit position. If anything were lacking there is $1,000,000,000 of available unused credit in the R.F.C.

Repayments to the latter, so far this year, of loans made previously have been running at the rate of $1,000,000,000 a year, which is twice the rate of repayment estimated in the budget message of the President last December. Net time and demand deposits in reporting member banks in the Reserve System, which usually represent about four-fifths of such deposits in the banks of the country other than in mutual savings banks, increased from $14,906,000,000 at the end of last September to $15,205,000,000 at the end of December and to $16,213,000,000 at the end of March—an increase of over $1,000,000,000 in the first quarter of this year.

The state of New York in April borrowed $50,000,000 on long term bonds at the rate of 2.887 per cent interest, the lowest rate ever obtained for the state's loans, and that, too, under unfavorable political conditions. Evidence of an ample supply of capital for every possible sound purpose multiplies on every side. There is money everywhere.

It would be an obtuse observer, indeed, who could not appreciate the significance of such facts. Admitting that the debt burden of the Government is rather heavy and will be heavier, there is abundant proof that the burden can be carried without material interference with the financing of commerce and industry. It may be admitted, also, that the banks of the country are just emerging from the most difficult period ever experienced by a national banking system which survived. The fact remains that the system has survived and is now displaying elasticity, virility and resources in an unprecedented recovery.

Business and Pleasure

ANGELL

The reason for all this, doubtless, is that at no time, even in the depths of the disappearing depression, has there been any inadequacy of the basis or means of credit in this country. Aside from the fundamental wealth and resources of the nation there has been at all times an adequate gold supply, an abundance of money and a readiness on the part of banks and other institutions to finance commerce and industry if and when credit could be properly called into play. Fundamentally the country has been as strong as in prosperity.

The banks reflect this solid underpinning. The wreckage of banking conditions which culminated in the so-called banking holiday of a year ago has been cleared away. On the first of April the number of national banks in the country yet to be licensed had been reduced to 218, all but 37 of which had approved plans of reorganization. There

were 5,346 national banks in operation with total deposits estimated at $18,372,571,000, as compared with $17,589,882,000 on the 30th of last December and $17,055,208,000 on October 25, the previous call date. The deposits in all national banks in January, 1933, were $18,518,000,000.

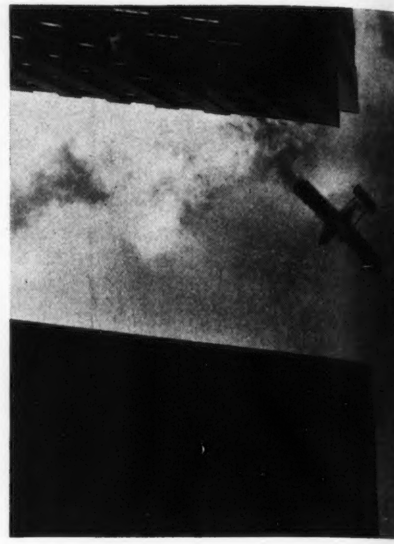
On April 1, all but 41 of the state member banks in the Federal Reserve System had been licensed, 920 state member banks being reported as compared with 805 in January, 1933. Their present deposits are estimated at $10,153,000,000, as compared with $10,225,000,000 in January before the banking holiday.

The non-member state bank situation is gradually being cleared up, the amount of deposits in the active members of this group being estimated at $5,060,000,000, while deposits in the mutual savings banks are estimated at $9,620,000,000, as compared with $10,022,000,000 in January, 1933.

The estimated total of deposits in all banks in the United States on the first of April, accordingly, was $43,205,571,000, as compared with $45,583,000,000 in January, 1933. These estimates of present day deposits are based largely upon returns from reporting member banks and are given as approximate only. However they represent with at least a fair degree of accuracy the country's bank deposit position.

The point to be considered in these figures is that while these present bank deposits are two and a third billion dollars below those at the beginning of last year, all of the present day deposits are available to the depositors. When the test came a little over a year ago, between five and six billions of the $45,583,000,000 in deposits were not available and somewhere between two and three billion dollars of this frozen money is still frozen. Whatever one may think of bank deposit insurance in principle, it at least has the merit of giving assurance in these days of recovery that what is placed to the credit of about 97 per cent of the 54,814,249 depositors in 13,632 out of 14,566 of the country's banks is genuinely available for their use. The decrease in deposits after the banking holiday was largely so much dead wood cut away.

There is further assurance in the retirement of emergency currency from circulation. Federal Reserve banknotes outstanding, which started with $21,049,000 at the close of the banking holiday, ranged steadily upward until December 31, when they stood at $233,725,000. Since that time the volume outstanding steadily decreased until at the beginning of April it stood at $120,386,000 and was decreasing at the rate of about $20,000,000 a week. Not all of this decrease has been retired from actual circulation, but the responsibility for it has been transferred from the banks to the Treasury by the deposit of lawful money with the latter. Banks have been repaying their loans in the R. F. C. more rapidly than any other large borrowers. Their net indebtedness to the corporation was reduced from $719,000,000 on December 31 to $657,000,000 on March 31 and



In contrast with the reassuring facts in this article might be cited what seems to be a contrary view, expressed by Professor Tugwell in the New York *Times* of January 4: "We felt that such social machinery could be created, but no man in the world could have pre-

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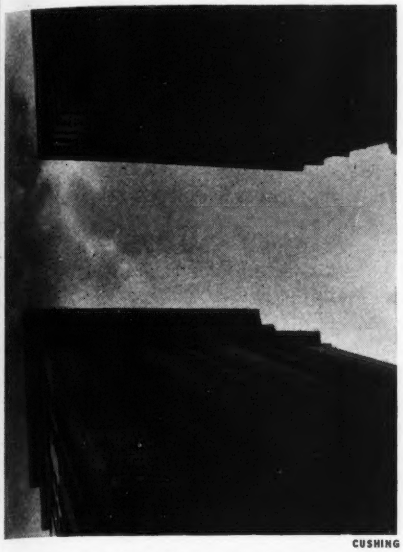
Mobility and

Comfort and safety—1820

Overland from St. Joseph, Mo.—1850

COURTESY AMERICAN EXPRESS CO.



CUSHING

dicted in detail the shape and form of the new American design. Today, production control machinery not only exists, it lives and moves, rocking and dashing us along untried ways toward a planned democratic society, rebuilt from the ground up."

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the repayments in April have been at an even more rapid rate. Bank earnings also have materially increased, while net profits of many institutions have been increased somewhat by a moderate recovery of bad debts which had previously been written off as losses.

Moreover, all banks now in operation have ample capital; if they lack in that respect they know exactly where to get what they need; it is, in fact, thrust upon them. Extreme liquidity is no longer a necessity, since banks are protected from runs by the deposit insurance system. Above all, there is the announced determination of the Federal authorities, voiced through the Federal Deposit Insurance Corporation, that no bank in the United States within its control will be allowed to fail, and the corporation, through the cooperation of the Reconstruction Finance Corporation, has ample resources to give effect to its determination.

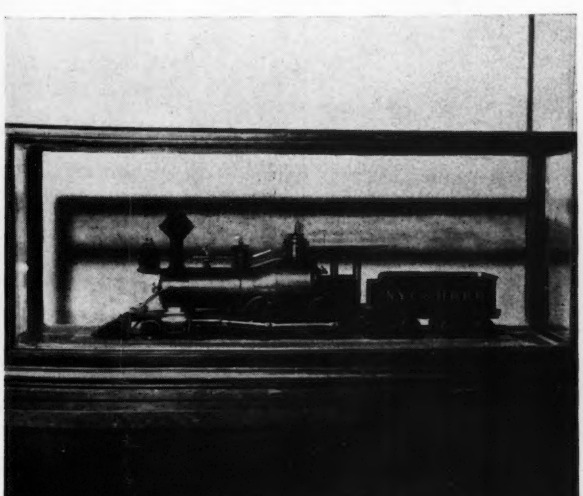
Rediscounting was never so easy or so cheap. The plain truth is that there is more bank credit available in the United States at the present time than ever before in its history. It needs only to be realized that the excess reserves of member banks alone can be swelled into something like $14,000,000,000 of actual bank credit on demand to appreciate the situation.

These excess reserves in themselves have special significance. At the end of last November, according to the Federal Reserve Board's calculations, the excess reserves stood at $794,100,000—an all-time high up to that date. Under the holiday demand for funds they fell to $765,700,000 at the end of December. By the end of January they had reached $866,100,000. In the period of gold imports in February and March they fairly bounded in their advance and by the first of April exceeded $1,400,000,000—an increase of around $650,000,000 since the first of the year. The increase is explained by several circumstances, the first being a return of money into the banks following the Christmas holidays as is usual at that time of the year. A second reason offered is the purchase of Government securities by the Federal Deposit Insurance Corporation and other Governmental agencies, while a third is the influx of funds from abroad following the formal devaluation of the dollar in January. Government spending of borrowed money is a fourth factor.

The influx of money from abroad is perhaps the most striking and most important element in the growth of the reserves, and it has special significance. The funds from abroad represent a return to the United States either of funds sent out of the country by Americans in fear of inflation a year ago or of foreign funds returned to the United States for investment after a net outflow of $383,-000,000 of foreign owned banking and short term funds taken out of the United States last year. Granted that much of this money came back to the United States to reap the profit entailed in the devaluation of the dollar, it has remained in American banks, confident of the future of the banks and American business. It has come in the form of gold and remains as an enlarged metal base

Territorial Expansion

1872 in a glass case



GLOBE

1920—The first traffic lights

INTERNATIONAL

for the nation's monetary and credit structure.

The distribution of these reserves also is significant. In April, 1933, New York banks held about 40 per cent of the $379,100,000 of total excess reserves, other Reserve city banks 34 per cent and country banks 26 per cent. In January, 1934, New York City banks held 17 per cent of the $866,100,000 of excess reserves, other Reserve city banks 55 per cent and country banks 28 per cent. This proportion has been considerably modified by the inflow of funds from abroad, but the principle of the distribution remains the same, that is, the excess reserves represent a condition common to banks in all parts of the country.

The prohibition of the payment of interest on demand deposits in the Banking Act of 1933 led country and other Reserve city banks to recall much of their New York balances. Instead of being concentrated in metropolitan centers drawing a little interest for their owners, these funds are now distributed as available bank credit in every part of the country. A considerable portion of this money has found its way into the Reserve banks as excess reserves of country and small city banks. This idle money not only affords available credit subject to local demand in almost every community but it also exerts an equable pressure all over the country upon borrowers to come and get it.

The excess of loanable funds and the strong position of the banks work to the benefit of the Government and therein react favorably upon the general credit situation. Rates on short term Treasury borrowing have been brought to a nominal level while the 3¼ per cent rate on long term issues has been made possible. Other factors have improved the national credit. The deficit on the current fiscal year's expenditures amounted on March 31, three quarters of the way through the year, to $2,542,209,695.

Inasmuch as the country has been expecting a deficit of about $7,300,000,000 by June 30 in line with the President's budget message, it is evident that the Treasury has a long way to go before anything like the anticipated increase in the public debt will be attained. It is expected that public works expenditures will increase greatly in the last quarter, reaching their highest point about the middle of June, but it seems evident that the total deficit for the year will fall $2,000,000,000 or so below estimates. It is likely, on the other hand, that about that same amount in relief expenditures will be carried over into the new fiscal year in addition to those already anticipated in the estimates, so that while the total public debt at the end of the next fiscal year may reach the figure originally estimated in the budget message it will fall below the actual expectancies of the investing public.

TREASURY CASH

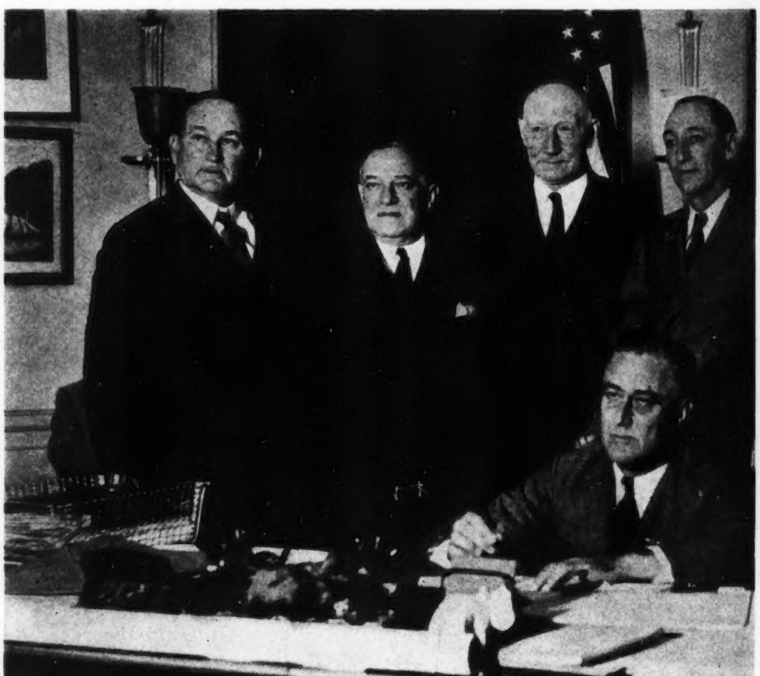
THE failure of the Government to spend as much money as it has raised for the purpose has placed the Federal Treasury in a very favorable position. At the end of the March quarter Secretary Morgenthau had in his strong box an actual cash balance of $4,817,870,615, including $2,810,454,390 gold profit set aside for the stabilization fund. That leaves $2,007,416,225 in the general fund and thus enables the Government to assume its take-it-or-leave-it position with respect to its new bond issue. The Treasury's cash balance also has been favored by increasing revenues from ordinary sources which have exceeded estimates. Liquor revenue and tobacco, manufacturers' excise and stamp taxes in the nine months brought a total of $1,115,510,358, which was an increase of $527,000,000 over the previous year.

The new liquor and other taxes explain most of the increase, but a general pick-up in business has had its part. Income tax collections in March reflected better business in 1933 than in 1932; customs receipts reflect increased business—in short, the country is pulling out of a hole. On the debit side of the ledger expenditures for ordinary Government purposes have been below estimates. With an increasing deficit it can hardly be said that the finances of the Government are in good shape but they are in far better shape than had been anticipated.

Improved, or perhaps reestablished, Government credit reacts favorably upon the banks. The Government is spending the money it borrows, scattering it in all parts of the land. This money finds its way into the banks and increases the amount of credit available upon demand. The only fly in the ointment is that as a result of these developments all conditions necessary for tremendous over-expansion of credit are now present.

What the American people now need is to cut loose from theoretical formulae, postpone questionable and debatable reforms to a more convenient day, have more confidence in themselves and their fellow citizens, rely upon the principles and institutions which have served them so well in the past and have the will to use to the utmost the credit and other facilities for recovery they now have.

President Roosevelt signing the National Industrial Recovery Act



ACME

Realization in Washington

By MARK SULLIVAN

PARADOX

"It is no mere coincidence that the opposition to certain aspects of the New Deal has grown stronger as recovery has gotten under way. At no time since the depression began have the evidences of improvement been so unmistakable or the prospects for the future so good. Yet there is more complaint than at any time since the President was inaugurated. It is a paradox, which is well worth trying to understand, that the prestige of the New Deal should be declining while prosperity is rising."—Walter Lippmann in the New York *Herald Tribune*

Act in June, 1933

THE Roosevelt Administration was a year old on March 4. Very soon after that first anniversary there emerged a series of events from which we can estimate how far the New Deal has gone in a year, where it now is and, most important of all, what direction America is now moving in—whether we have halted or slowed down—or whether we are still in full momentum toward what Mr. Roosevelt called (in his address to Congress January 3) "a permanent readjustment of many of our ways of thinking and therefore of many of our social and economic arrangements."

To these questions the answer can be given before we recite the details. America during March and April this year was visibly and concretely shrinking back from the innovations which Mr. Roosevelt had introduced.

Of the evidences of this, perhaps the most convincing was the plain disposition of Congress to resume its normal functioning. For almost exactly a year, from the date of Mr. Roosevelt's inauguration until the end of February this year, Congress had passed every item of legislation Mr. Roosevelt asked. The immense majority of his party—310 Democrats to 117 Republicans in the House, and 60 Democrats to 35 Republicans in the Senate—responded to his requests as if, instead of an independent arm of the Government, they were his own cabinet owing their positions to his appointment and their tenure to his pleasure.

The first break came late in February. The item of legislation which Congress rejected was immaterial in substance—but in principle far-reaching. In one of the appropriation bills there had been inserted an allotment of $525,000 to build a Government furniture factory. The factory was planned as an incident of one of the Administration's relief projects. The Administration was establishing at Reedsville, West Virginia, a community of small "subsistence farms" for the unemployed, and the Government furniture factory was to provide employment for the workers whom the Administration planned to bring there. It was known that, in addition to being an Administration project, the factory had the particular interest of Mrs. Roosevelt—this fact figured in the discussions as a reason why the money should be granted.

Opposition arose on a clear basis of principle—the principle which marks one of the fundamental divisions between the New Deal and the old American way. The furniture factory, even though small, and even though an appropriate incident of relief of unemployment, would nevertheless be a case of the Government's entering into the area of business which, under the American tradition, is the prerogative of private enterprise and private capital. The beginning of the opposition came from Congressmen representing districts in which furniture manufacture is a leading industry—and which, therefore would suffer direct injury, including the throwing out of as many employees of privately-owned furniture factories as would be taken on by the Government-owned one. These districts (in North Carolina, Grand Rapids and Indianapolis) would not, however, have accounted directly for more than half a score of members; the fundamental principle involved enlisted the interest of Congress as a whole, and the appropriation was rejected in the House by a vote of 275 to 110. The Senate approved the

HARRIS & EWING

WASHINGTON

Permanence in the midst of change

appropriation, but in the ensuing conference between Senate and House, the latter, standing firmly by the principle that the Government should not enter into business in competition with its citizens, secured the final elimination of the project.

The second declination of Congress to approve an Administration measure was the Senate's refusal to ratify the treaty with Canada providing for a St. Lawrence River seaway. To an exceptional degree, this project was identified with the President's wishes and his plans. He recommended the treaty and he sent a special message to the Senate asking them to ratify it. He wished it not only for the overt purpose of the waterway but also because the dams would further the President's purpose of setting up, at key-points throughout the country, Government-owned sources of electricity to compete with privately-owned enterprises. In addition to the President's support, the project had behind it a strong body of opinion and a considerable group of Senators from Midwestern states which thought they would be commercially benefited by a new outlet to the sea.

WASHINGTON

A code meeting in the Department of Commerce Building

CUSHING

Since this was an international treaty, ratification required a two-thirds vote. Actually, the treaty received little more than a bare majority. Eighty-eight Senators were voting (out of a total of 96). Ratification would have required 59 votes. The number who supported the treaty was only 46. It was significant that the 42 Senators who voted "nay" included 22 of the President's own party. While some of the Democratic votes in opposition came from Senators from the Atlantic seaboard, influenced by local apprehension lest their commercial interests be harmed, nevertheless the incident as a whole was a concrete and undeniable interruption of the willingness of the Senate, and even of the President's own party in the Senate, to accept Presidential recommendation as a sufficient reason for enacting legislation.

The most conspicuous departure by Congress from President Roosevelt's will was the passage of a bill over his veto—the first time this has occurred, and a thing which, a year before, would have been regarded as unthinkable.

The bill was one which increased the compensation of veterans and the pay of Government employees. As an interruption of the disposition of Congress to do the President's will, passage of this measure over the President's veto pleased many who had deplored the year of surrender by Congress to the executive. But some of the same persons who felt this pleasure felt also that Congress' action meant an increase in Government expenditure, felt that it reflected unwillingness of Congress to practice economy to as great an extent as the President was willing to lead.

This whole episode is widely misun-

derstood. Congress did not impede economy as seriously as is generally thought. At the same time President Roosevelt's courage and initiative has gone farther than that of any other President in our history in the direction of economy within one restricted area, the successful reduction of compensation to veterans. Had Mr. Roosevelt continued to be as economical in all fields as the beginning he made in this, and had his policies generally been consistent with this, the story today might have been different.


CUSHING

WASHINGTON

A photographer takes a picture of a code group in action

BEGINNING MARCH, 1933

THE complete story of this incident begins more than a year ago. Mr. Roosevelt, within three days after his inauguration last year, sent to Congress a measure which, taking advantage of the psychology of the time, he called "A Bill to maintain the credit of the United States." Under this title Mr. Roosevelt asked Congress to give him power to reduce the pay of Government employees and to reduce the compensation of veterans. Congress, in an overwhelming acceptance of Mr. Roosevelt's leadership at that time, gave him the powers he asked; the vote in the House was 266 to 138, in the Senate 62 to 13.

Then, a year later, Congress, with equal decisiveness, acting upon the same subject matter, rejected the President's leadership by a vote of 310 to 72 in the House and 63 to 27 in the Senate. As a reversal of the relations between President and Congress, the two votes a year apart compose a sensational contrast. It raises the question whether, had Mr. Roosevelt followed during the intervening year a course different from the one he did, he would have been able to retain that ascendancy over the thought of the country and over Congress which would have caused Congress to do his will as freely in March, 1934, as it had in March, 1933. The whole incident calls for understanding, and this requires that the story be told with some completeness.

Mr. Roosevelt, as soon as he was armed with the power Congress gave him in March, 1933, reduced the pay of Government employees by 15 per cent, and twice renewed the cut, keeping it in effect more than a year, until the day Congress reversed him.

At the same time, Mr. Roosevelt reduced also the compensation of veterans by an amount which, speaking roughly, was 30 per cent. Later he, of his own initiative, restored some of the cuts he had made, but his restorations were not seriously material. Still later, Congress, as I have recited, undid some of Mr. Roosevelt's cuts. But—and this is the point on which there is much misunderstanding, and on which justice needs to be done to Congress—the restorations of veterans' compensation that Congress made were by no means the whole of the cuts Mr. Roosevelt had made. As of today, as the net of the whole series of actions, 517,000 veterans are removed from the pension roll who were on it when Mr. Roosevelt took office. And in other cases, where Congress made restorations, the restorations were only 75 per cent of what the compensation had been when Mr. Roosevelt took office.

As the sum of the whole series of actions, two statements can be made, one about Mr. Roosevelt and one about Congress.

As respects Mr. Roosevelt, he has done what no President or party leader has ever done before. He has disproved what had always been regarded as an axiom of politics. The axiom was that no rate of compensation, once voted to veterans, had ever been reduced or ever could be; and that no group of veterans, once placed on the pension roll, ever had been or ever could be removed. (There was an immaterial exception having to do with veterans of the Revolutionary War in 1820). Through Mr. Roosevelt's courage and persistence, this axiom is no longer valid; and veterans' compensation is today taking some $250,000,000 less from the Federal Treasury than it had been taking when Mr. Roosevelt became President last year.

As respects Congress, the extent to which it undid Mr. Roosevelt's economy has been greatly exaggerated. Nearly half the cuts Mr. Roosevelt originally made are still in effect untouched by Congress. Much of what Congress did

was merely to give statutory status to restorations which Mr. Roosevelt himself had made of his own earlier cuts.

In the net, it is a fair judgment that the value to the country of Congress' resuming its normal functioning is much greater than the detriment to the country of its restoring a comparatively small part of the compensation of veterans which Mr. Roosevelt had cut.

I have been writing of evidences that by the end of Mr. Roosevelt's first year the New Deal was waning in vitality, subsiding in popularity with the country and with Congress. In one respect, the ebbing took the form of a deliberate retreat, the decision to retreat being inspired, one suspects, by consciousness on the part of the Administration that the New Deal had become less agreeable to the public.

The most drastic section of N.R.A. is the provision that the President, in his discretion, may put the whole of any industry under a system of Presidential licenses; that thereafter no business concern within such industry may operate without a license; and that the President may "suspend or revoke" any such license at will. (He must hold a hearing but he is the sole judge of the evidence.) And finally that any person doing business without a license shall upon conviction "be fined not more than $500 or imprisoned not more than six months, or both, and each day such violation continues shall be deemed a separate offense."

This is the power of economic life or death over every business man. It is the "teeth" of N.R.A.—at least it is the sharpest and biggest of the teeth—there are some others. At the time N.R.A. was enacted, this provision was recognized as the one going farthest against the American habit of mind about justice and about the rights of the individual as against the Government. It was shocking to the common feeling, even in the abnormal popular psychology prevailing at the time N.R.A. was enacted, in June, 1933.

Because of the extreme quality of this provision, there had been hesitancy on the part of many Senators to vote for N.R.A. In the end a compromise was effected. N.R.A. as a whole was enacted with a statutory life of two years. This one licensing provision, however, was limited to a life of one year from the date of enactment, that is, to June 16 of the present year. As the date of expiration of the licensing provision approached, N.R.A. Administrator General Hugh Johnson announced

DING IN THE NEW YORK HERALD TRIBUNE

In 1926—"Pop Has Learned Something From Experience"

that he would not ask Congress to extend it. At the time this is written, General Johnson's announcement had not been changed by himself nor over-ruled by the President.

The early action of Mr. Roosevelt in drastically reducing government expenditures by reducing compensation of veterans and pay of Government employees—that was not New Deal. It was old-fashioned, orthodox management of the country's affairs.

But immediately after this earliest step he began a series of actions about which, as a whole, two statements can be made. Several of these actions ran directly counter to the reduction of Government expenditures (which was the characteristic of the first step). And many of the subsequent steps, comprising the New Deal as a whole, not only ran counter to the first step but ran counter to each other. They made no pattern. By the end of little more than a year, the spectacle of some policies neutralizing other policies was such as to cause Mr. Walter Lippmann, recently, to speak of "the economy of Bedlam".

While Mr. Roosevelt was initiating a drastic reduction in pay of Government employees and compensation of veterans, and while he was consistently and courageously standing by these reductions for more than a year, he was at the same time initiating a new principle and practice, likely to cost much more than the savings he had effected. The principle is, speaking broadly, that the Federal Government shall accept final responsibility for relief of unemployment, a responsibility which habitually heretofore had rested on state or local units of government. In living up to this voluntarily accepted obligation, the Administration expended some billions partly in direct relief, partly in supplement to relief extended by states and cities. Mr. Roosevelt during his campaign for the Presidency had created an impression which, as the popular mind understood it, did not differ materially from an assertion that the Federal Government owes every man a job and a living whenever the job and the living are not supplied from other sources. In carrying out this idea, more billions were spent. (CONTINUED ON PAGE 73)

Some Governmental phenomena of 1934 (right) seem very much like their 1926 counterparts (left)

DING — 1926

BROWN IN THE NEW YORK HERALD TRIBUNE — 1934

Incredible Silver

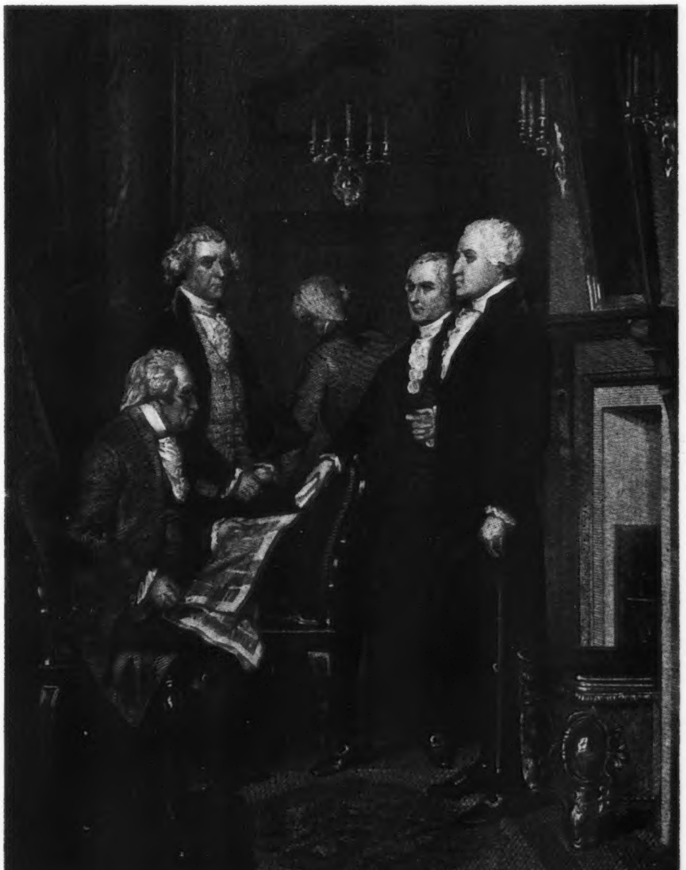
By NEIL CAROTHERS

Professor of Economics and Director of the College of Business Administration, Lehigh University

IN all history there has never been anything like this so-called silver issue. Consider one small detail only. The number of nations that use silver as basic money is a simple matter of known fact. It is reported in every almanac, in dozens of Government documents, in hundreds of books and articles. The Chinese are the only people who use silver, and the Chinese are about one-fifth of the world's population and have about 2 per cent of the world's trade.

What would you think if day after day the papers carried quotations from eminent men saying that buttermilk is the standard money of a third or a half of the world's population, and therefore that a rise in the price of buttermilk would revive the trade of the world? It happens that this absurdity would be a little nearer the truth than the same statement about silver. While neither buttermilk nor silver is used by any economically important part of the world, a rise in buttermilk prices would not affect international trade, but a drastic rise in silver prices would greatly injure China and to that small extent reduce world trade. When able and experienced currency experts are confused about silver, what chance is there for the masses of the people, who get their judgments on the issue from the Rev. Coughlin, Will Rogers, Raymond Moley, Senator Wheeler, Harry Elmer Barnes and the Chairman of the Committee for the Nation?

Silver is not a currency issue. It is a political issue. It is not a monetary problem. It is a problem in propaganda. It is not a question of industry or trade. It is a question of the capacity of a democracy to govern itself. Books of a thousand pages have been written on the subject. To an audience of intelligent bankers the story can be told in a thousand words. It will be assumed that you already know that for a single nation bimetallism will not work, that no nation in the world has bimetallism, that the adoption of bimetallism at a ratio favorable to silver will immediately destroy the gold standard, and that international bimetallism is not now a possibility. And one word of warning. To understand the silver question it is necessary to understand the coinage history of this country. If you are not willing to learn this dull and dry



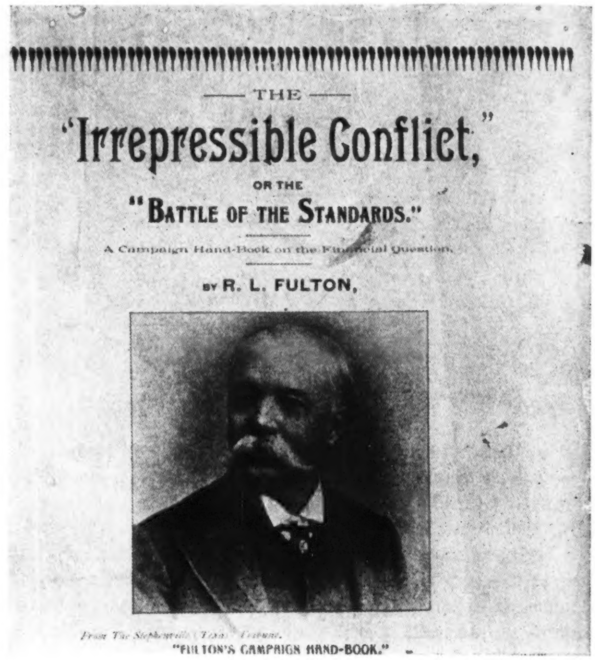
CHAPPEL-PHILLIBROWN

NEWS IN 1792

"Jefferson and Hamilton established our coinage, with bimetallism at a ratio of 15 to 1, solely because at that time every other nation had the same system." The picture shows the first Cabinet—Knox, Jefferson, Hamilton and Randolph with President Washington

page from your country's history, do not venture into this muddy field of sectionalism, propaganda, and political trickery. On the next page there is a brief outline of silver measures. If you do not know exactly what each of these measures did, keep off the radio and the printed page.

For a thousand years the world struggled with bimetallism. One at a time all the nations abandoned it as a failure—England, France, Germany, Russia, Japan, Argentina, Mexico, India and all the rest, save China. In 1792 Jefferson and Hamilton established our coinage, with bimetallism at a ratio of 15 to 1, solely because at that time every other nation had the same system. It was a complete failure, so much so that in disgust President Jefferson suspended the coinage of the silver dollar in 1806, and its coinage was not again permitted for 30 years. From 1792 to 1834 this country depended almost entirely on banknotes and foreign coins.



A campaign handbook for use in the election of 1896

In 1834 the ratio was changed to 16.002 to 1 and in 1837 to 15.988 to 1. This is the famous 16 to 1. At this ratio the silver in a dollar was worth, in the next 40 years, from $1.01 to $1.05, and silver could not be coined. The laws of 1834 and 1837 put this country completely on the gold standard. It has been on the gold standard ever since. Because of the gradual exhaustion of foreign coins and the negligible coinage of silver at our mints, the country was gradually starved of all small change. In 1853 Congress abolished bimetallism for all silver coins below the dollar and made them subsidiary, mere "tokens" like copper cents. Through a foolish oversight that later caused a national tragedy an incompetent Congress failed to take any action about the silver dollar, at the time a coinage curiosity, too clumsy to be made subsidiary. In 1869 two Treasury employees undertook a revision of all the scattered coinage laws. In the bill the absolutely unknown silver dollar was dropped from coinage. The bill was before Congress from 1869 to 1873. The dropping of the dollar was occasionally mentioned, but in all those years not one member of Congress ever questioned it.

Thus we have three essential facts, that bimetallism never was in practical operation in this country, that from 1792 to 1934 our silver coinage has never been used as the nation's basic money, and that the 16 to 1 ratio has never had any significance in American history. But when in an unguarded moment I turn on my radio on a Sunday afternoon I hear a roaring voice declaring that in 1873 English bankers sent $500,000 to Washington to bribe Congress to steal from the common people their cherished silver dollars.

One of the unhappiest events in American history occurred in 1874. The price of silver went down. There had

NEWS IN 1853

"Congress abolished bimetallism for all silver coins below the dollar and made them subsidiary, mere 'tokens' like copper cents. Through a foolish oversight . . . Congress failed to take any action about the silver dollar . . ."

DRAWING BY J. BERNARD

Silver in the United States

1792—Bimetallism at 15 to 1. (A failure)
1834, 1837—Bimetallism at 16 to 1. (Put country on gold standard)
1853—Silver made "token" money.
1873—Confirmation of gold standard existing since 1834.
1878—Bland-Allison Act. (A subsidy for silver)
1890—Sherman Act. (A larger subsidy for silver)
1893—Repeal of Sherman Act.
1900—Pledging of country to gold standard.
1918—Pittman Act. (A subsidy for silver)
1933—Thomas Act and silver purchase order. (Two subsidies for silver)

been wild speculation in Nevada silver shares, both in and out of Congress. When the world market ratio went above 16 to 1 the silver interests made a discovery. It was that if the law of 1873 had not dropped the silver dollar, a smelting company could take 90 or 95 cents' worth of silver bullion to the mint and have it coined into a dollar. In other words, if they could by political manipulation restore that 16 to 1 ratio, which had never been in effect and was now a dishonest ratio that would destroy the gold standard and American finance, an unearned profit for silver miners could be obtained, for a little while, at the expense of the nation's solvency. They set about getting this profit through politics, and for 60 years they have never relaxed the effort.

They have never quite achieved bimetallism at 16 to 1. But they have been very near to it. Failing in this attempt, they have managed to bludgeon out of the Government, at intervals, direct subsidies for silver. In every case they have done this under cover of war, depression or political crisis. In 1878 they got the Bland-Allison Act. This was a simple measure. It merely ordered the Government to buy $24,000,000 to $48,000,000 of silver bullion annually and coin it into dollars. The amounts just equalled the probable output of the American mines. The Treasury flatly refused to buy more than the minimum amount. But the subsidy encouraged production. So in 1890 the Sherman Act contained a provision which, simply expressed, forced the Government to double its purchases.

It is essential to understand the nature of these dollars that were coined from this bullion. They were full legal tender and were coined at the old weight which made their ratio to gold 16 to 1. But the value of silver was falling steadily, and the actual value of the silver dollar was anywhere from 40 to 70 cents. The coins were thus debased and dishonored pieces, forced upon the people by a venal statute. The people would not have them. The population of the West accepted them for "patriotic" reasons, and the Southern negroes, at that time unable to read, preferred them to notes. But the bulk of them poured back into the Treasury, alarming the Government. So a clever scheme was devised, to issue a warehouse receipt for each dollar, bury the dollar in the vaults and pass the certificate out to the people. In this way the Government could get rid of them. If you have a dollar bill in your purse, it is a silver certificate. It entitles you to ownership of a useless and debased coin that has been lying in the dust of the Treasury vaults for 40 or 50 years.

Passing the dollars over to the people did not save the Treasury. The certificates inflated the currency and drove out an equal amount of gold. The financial world became frightened. In the

NEWS IN 1900

"Congress pledged this country to the gold standard. The adventure in subsidizing silver gave the country a panic and left as a legacy a liability for redemption of over 500 million dead and buried dollars, worth less than 50 cents apiece." The picture, from *Harper's Weekly*, shows a Washington correspondent interviewing a Congressman

CULVER

fall of 1893 India went off the silver standard. A wild panic ensued in New York, developing into the tragic depression of 1893 to 1897. The Treasury narrowly escaped insolvency. In humiliation Congress repealed the Sherman Act.

But the silver interests were not through. They re-opened the fight for bimetallism. The nonsense about "the crime of '73", Coin Harvey and the Bryan campaigns were some of the results. By a narrow margin sanity prevailed. In 1900 Congress pledged this country to the gold standard. The adventure in subsidizing silver gave the country a panic and left as a legacy a liability for redemption of over 500 million dead and buried dollars, worth less than 50 cents apiece. This liability, a menace to Treasury solvency, is constantly referred to by the silver bloc as the "auxiliary silver reserve".

KEYSTONE

NEWS IN 1934

"There is now before Congress an indescribable medley of bills attempting to do something more for silver. One of them calls for bimetallism at 16 to 1, another for the purchase of 1½ billion ounces. The others attempt to tie up a subsidy for silver with some such issue as the bonus or foreign trade." Above, Senators Thomas, King and Wheeler

In 1918 war conditions drove the price of silver to unprecedented heights. England badly needed silver and bought 270 millions of the dollars and melted them. At one stroke we got rid of one-half of this useless and dangerous mass of dead silver. But in the confusion of war measures the Pittman Act was jammed through. It forced the Government to buy from American silver miners enough bullion to replace every ounce sold to England, and to pay $1.00 per ounce for it. In the ensuing years, when silver was selling everywhere in the world for 65 cents an ounce, our Treasury was buying the metal at $1.00 and piling the dollars back in the vaults. The actual cash gift to the silver interests, out of taxes, was about $70,000,000. The Government liability recreated was somewhere between $100,000,000 and $150,000,000.

No opportunity for further plunder presented itself until the present depression. President Hoover was hounded mercilessly by the silver bloc, but he resisted them valiantly. Their opportunity came in 1933. So far they have accomplished the following:

(1) A provision permitting the payment of the allied debts in silver.

(2) A provision in the Thomas Act authorizing the President to "restore" bimetallism at any ratio he thinks best.

(3) A joint agreement between the United States and four other nations to buy a total of 35 million ounces annually.

(4) An order by the President to buy 24 million ounces as our share of the 35 millions at a price of 64½ cents an ounce, 21 cents above the market price, the amount just covering the annual output of American mines.

(5) A provision in the gold devaluation law permitting "devaluation" of the silver dollar in proportion to gold. In simple terms this is equivalent to authorizing a value of $1.66⅔ to $2.00 for a silver dollar worth, at the present time, even in terms of the devalued gold dollar, about 35 cents.

There is now before Congress an indescribable medley of bills attempting to do something more for silver. One of them calls for bimetallism at 16 to 1, another for the purchase of 1½ billion ounces. The others attempt to tie up a subsidy for silver with some such issue as the bonus or foreign trade. All except the suicidal 16 to 1 proposal call for the coinage of more debased silver dollars to be piled in the vaults, and the issue of more certificates, mere fiat money, to the extent of the difference between the money value and the bullion value of the silver dollar. It is a question how long the poor old gold standard, already juggled, mutilated and suspended, can stand the strain.

This is the story of silver in America, a story without parallel anywhere else in history.

This writer has a solution of the silver problem. He recommends that the government call a conference of the silver interests and offer complete surrender. Ask them what sum in cash they will take to withdraw from politics—and give it to them. Whatever they ask, the bargain will be cheap at the price.

Silver Group Plans to Fight Despite Plea Of Roosevelt

Senator King Is Sent to President to Insist That White Metal Be Made 'a Primary Money'

Federal Examination of Trust Departments

By GEORGE E. ANDERSON

IN view of the growth of the trust business in the banks of the United States it is not surprising that Federal authorities are moving to make their supervision and control of such business commensurate with its volume. It may be surprising to many bankers, however, when they realize how complete such supervision and control may be under laws passed by Congress within the last year. For the purpose of strengthening the trust departments of all banks, both state and national, and standardizing their practices, three agencies of the Federal Government are acting in unison and cooperation for the establishment of a plan of examination and control of such institutions, which is new in conception, new in its thoroughness and more or less new in personnel involved. Also it is decidedly new in the comprehensiveness with which these combined agencies are to supervise if not dominate this branch of the banking business.

Trust authorities in the office of the Comptroller of the Currency, in the Federal Reserve banks and in the Federal Deposit Insurance Corporation are engaged at the present time in working out a system of special examinations for the trust departments of banks which, with slight if any variation in the case of each authority, will be applied by their representatives to all banks coming under their respective jurisdictions.

The Comptroller of the Currency, as the officer of the Government in charge of national banks, will apply the new plan of examination to the national banks. The Federal Reserve banks will apply the plan to state banks which are members of the Reserve System, while the Federal Deposit Insurance Corporation will apply it to state banks which are not members of the Reserve System but which are members of the insurance corporation. If there is any bank in the United States with a trust department which does not come under one of these three authorities it will be a *rara avis*, indeed. Concurrently with one or more of these Federal authorities the state superintendents of banking will continue to exercise their examining and supervisory authority over the trust as well as the commercial departments of the state banks within their jurisdiction.

Primarily, this new move on the part of the Federal Government is in the interest of thoroughness. Incidentally, but importantly, it also has as its object a certain amount of standardization or uniformity of practice in trust departments for the purpose of better control of investments, the avoidance of dangerous or unsound methods of handling trusts, the prevention of abuses in the use of trust funds and for the promotion of a sounder, healthier condition in the trust business of banks. No new legislation is proposed since none is needed—at least for the present. These various agencies of the Government already have ample powers. They merely propose to use these powers with more thoroughness and to better advantage.

Under the various laws governing the exercise of trust powers by banks as heretofore administered there has been the utmost confusion as to the objects and methods of supervisory examinations, and incompleteness as to the manner in which the latter have been conducted. There has been uniformity in the examination of national banks under the Comptroller, but these examinations have been incomplete and often unsatisfactory, partly by reason of

Mr. Black

U. & U.

STATE MEMBER BANKS

"The Federal Reserve banks will apply the plan to state banks which are members of the Federal Reserve System. . . . Each Federal Reserve bank at the present time is building up as rapidly as possible a special examining board for trust departments and trust institutions, with a specially trained personnel. Much progress has already been made along this line in the New York, Boston, Chicago and Atlanta districts, but the system of special examinations and examiners is being applied in all Reserve districts as rapidly as possible."


U. & U.

Mr. O'Connor

NATIONAL BANKS

"The Comptroller of the Currency, as the officer of the Government in charge of national banks, will apply the new plan of examination to the national banks. . . . The Comptroller is developing a larger force of examiners highly trained in the technique of trust department examination."

a lack of specialized knowledge of the trust business on the part of the examining officer.

National bank examiners, naturally, have been trained chiefly in commercial bank practices for the purpose of highly technical and thorough examination of the principal business of the institutions they examine. For several years after the first fiduciary permit was issued to a national bank in 1915, the trust departments of the banks constituted a small and unimportant part of their business, and a lack of technical knowledge of the trust business, while a source of regret, was not considered a serious handicap.

The tremendous growth of the trust business of the national banks as a whole in recent years, however, has given the matter an entirely new aspect. Starting with nothing in 1915, reaching total assets in individual trusts amounting to $973,000,000 and corporation bond and note trusts of $2,464,000,000 ten years later, the national bank trust departments at the end of the last fiscal year held $6,311,657,753 assets of individual trusts and $10,418,426,937 of corporation bond and note trusts. The examination and superintendence of such a business, especially in the trust departments of banks in the larger cities, which hold nearly 90 per cent of the individual trust business and almost all of the corporation trusts, has become a highly important matter, necessitating far more elaborate methods and highly trained personnel.

The situation among the member banks in the Federal Reserve has been even more unsatisfactory. For national bank members the Reserve authorities have usually depended upon the examinations made by representatives of the Comptroller. For state member banks—a class which includes some of the largest trust companies and banks with trust departments in the country—they have been compelled to rely largely upon state examining authorities. In some of the states the examinations of trust departments in the state banks have been as satisfactory, or unsatisfactory as the case may be, as the examinations of national banks by the Comptroller's representatives, but in many of the states the examinations have been highly perfunctory. Some of the state superintendents have been unable to report to the Reserve authorities much more than the total of trust assets held by the banks under their jurisdiction. Little knowledge has been obtained of the methods of handling trusts, and in some of the states precautionary control of trust functions is known to be very weak. This has been due partly to inadequate state legislation but more importantly to a lack of trained examining personnel.

The Federal Deposit Insurance Corporation naturally has as much interest in the sound administration and control of trusts in banks which are its members as in any other branch of the banking business. In state banks which are not members of the Reserve System there is uncertainty as to how large the trust business really is, how the trusts are administered and what bearing they have upon the soundness of the banks from a deposit insurance standpoint. The corporation can rely upon the Comptroller and the Federal Reserve authorities for reports concerning banks within their respective jurisdictions, but with respect to other banks the corporation must fend for itself. In doing this the corporation closes the last gap in a comprehensive examination system covering all banks in the country.

The chief problem of the combined systems of examinations is that of the examining personnel. Such experts in the examination of trust departments as have been available have been in the Comptroller's office. Compared with the mounting totals of trust business handled by the banks under the Comptroller, their number and training have been inadequate. Since the trust business in large volume is comparatively new in national bank work the Comptroller's office also has been compelled to feel its way in the matter of methods of examination and the standards by which the condition of trust departments could be measured.

The uniform schedule now being worked out by the three Federal agencies is expected to embody the experience of the Comptroller's office in dealing with national bank trusts together with additional information, as planned for some time. The Comptroller is developing a larger force of examiners highly trained in the technique of trust department examination.

Difficulties of the Federal Reserve authorities in this line have been far more serious than those of the Comptroller's office. Heretofore, whenever it was felt that there was need of a thorough examination of the trust department of a state member bank, or in the case of large state banks with very large trust departments, examiners have been borrowed from the national bank system. The Banking Act of 1933, however, has imposed new and highly important functions upon the Reserve

System in this and related matters. With the increasing number of member banks not in the national system and the increase in the trust business generally, the Reserve authorities have found it necessary to establish a new and comprehensive system of their own.

Each Federal Reserve bank at the present time is building up as rapidly as possible a special examining board for trust departments and trust institutions, with a specially trained personnel. Much progress has already been made along this line in the New York, Boston, Chicago and Atlanta districts, but the system of special examinations and examiners is being applied in all Reserve districts as rapidly as possible.

For the Federal Deposit Insurance Corporation the whole proposition is new and an entirely new organization must be built up. This is being done as rapidly as possible in connection with and largely supplemental to the organizations in the Comptroller's office and the Federal Reserve System. The size and number of non-member state banks handling trusts are not large, though trusts may be important in the case of each bank in its relation to the insurance corporation. It is considered of special importance, however, that all such banks be brought into a comprehensive system of trust department examination in the interest of fairness to other banks as well as sound banking in general. In the trust business, in short, there is to be something akin to a uniform if not a unified system of banking in the United States.

With the introduction of a more highly trained personnel in the work of examining trust departments it may be assumed that there will be a considerable change in methods of examination. It may also be assumed that, in line with instructions already given by the Comptroller for the examination of trust departments of national banks, the new combined examination system will look first of all to the character of the management of trust departments and to the manner in which various trusts are being administered as well as to the substance administered. In other words, the authorities are looking for efficiency as well as conformity to law. Present examinations of national bank trust departments look first of all to see that all trust assets turned over to the trust department are intact and are held by the bank in its fiduciary capacity; that the income on trusts has been collected and properly distributed to the beneficiaries; that distribution of principal has been properly made where it is called for; that the income of the department is properly accounted for to the bank; and that the assets of the department properly reflect lawful and efficient management of the trusts committed to it.

It is expected that the new instructions to examiners will go much further along the same line and include a more thorough examination and analysis of the investments which have been made for account of the various trusts to determine their desirability and present worth and such details as checking the value of bonds deposited with the trust department to secure deposits of trust funds in the banking department. The Banking Act of 1933 places new responsibilities upon the Federal Reserve authorities with respect to the relations of banks, including their trust departments, with their affiliates, security or otherwise. To meet these responsibilities the Reserve authorities, together with the Comptroller's office and the deposit insurance corporation, will necessarily require a thorough examination of all such relations, the nature of trust investments as affected by the business of security affiliates, and all matters involved in the intricate business built up in recent years in connection with affiliates of every sort.

A uniform system of examination for trust departments in all banks also tends toward considerable standardization in the administration of trusts and in the nature and proportion of investments under similar conditions.

For several years the Comptroller's office has been compiling comprehensive data as to all trust investments in various types of banks of various sizes and in towns and cities of various populations. Annual reports show, for example, what proportion of trust assets is in bonds, what in real estate mortgages, what in stocks and so on, in banks of several classifications and in different sized cities. Thus averages can be established and have been found to vary little from year to year in the respective classes. Accordingly, when an examiner finds a trust department in a bank with investments much out of line with the established proportion the reason therefor will be sought—not necessarily to cut the man to fit the suit but to secure assurance that the trusts are managed upon sound and accepted principles.

There is also a disposition on the part of the authorities to see to it that the individual trusts under private contract, which now constitute 80 per cent as compared (CONTINUED ON PAGE 73)

Mr. Crowley

U. & U.

STATE NON-MEMBERS BELONGING TO F.D.I.C.

The Federal Deposit Insurance Corporation will apply the trust department examination plan to state banks which are not members of the Reserve System but which are members of the deposit insurance corporation. "For the Federal Deposit Insurance Corporation the whole proposition is new and an entirely new organization must be built up. This is being done as rapidly as possible in connection with and largely supplemental to the organization in the Còmptroller's office and the Federal Reserve System."

The Downward Trend Of Interest Rates

THE President of the United States thinks that interest rates ought to be lower. Various authorities at home and abroad think that they will be lower, perhaps stabilized for leading financial countries at a basic rate of around 2½ per cent, as suggested by John Maynard Keynes. Leading men in American financial markets look for lower rates. As a matter of actual fact rates are now much lower than they have been since the World War. Whether current low levels are permanent, however, is a different matter. There are many reasons for them at the present time, and there are several good reasons why they may be lower in the future. Money, however, like the wind, "bloweth where it listeth." It comes and goes in response not only to open demand but also to hidden, subtle, intangible influences, and as it comes and goes interest rates respond accordingly.

Superficially, Governmental monetary and credit policies are the chief factors in interest rates. More fundamentally, the rate of saving and wealth accumulation is the chief factor, since, as is evident, new capital coming into the market from savings tends to an increased supply of investment funds with resulting lower rates, while in periods when savings are small or disappear money rates tend to rise. Profits from industry, agriculture and commerce also affect interest, high profits tending to increase the demand for funds and to draw money from loans to investments, while low profits tend to decrease such demand and at the same time turn investment funds into loan channels. Present monetary and credit policies of governments all over the world favor lower interest rates, and this factor is emphasized by low profits in industry and commerce. Whether a business revival and a consequent increased demand for credit, coupled with a lower rate of saving and wealth accumulation, will be enough to overcome Governmental policies seems to be the crux of the matter at the present time.

In the American, as in most other leading money markets, there are all sorts of loans and all sorts of interest rates, but the general course of the latter can usually be determined by rates charged for long term Government borrowing, for open market money which can also be measured largely by the Government's short term borrowing, and rates charged customers by the banks of the country. Interest rates on all classes of loans move up and down more or less in unison but in widely varying degrees. Which class can be considered the best measure of fundamental credit conditions is subject to considerable difference of opinion. Government long term rates are influenced by factors not strictly of a credit nature, as the use of such securities for a currency base. Open market rates, Governmental and otherwise, are more sensitive to current credit conditions but are more ephemeral, and while open market financing is used in almost all lines of industrial and commercial activity its interest rates are especially subject to speculative influences. For these and other reasons bank loans are probably the best measure of normal credit conditions, and, of these, customers' loans, which constitute about 90 per cent of all bank loans, are the most significant as representing the most direct contact between capital and the great mass of the country's producers.

The trend of interest rates for customers' loans by banks since the World War is highly significant. It is indicated in the accompanying table.

Rates Of Interest Charged Customers By Banks In Principal Cities

Year	*Banks in New York City*	*Eight Northern and Eastern Cities*	*Twenty-seven Southern and Western Cities*
1920	6.25	6.74	6.75
1921	5.51	6.75	7.82
1922	5.07	5.48	6.14
1923	5.19	5.50	5.94
1924	4.60	5.11	5.71
1925	4.47	4.91	5.58
1926	4.67	5.06	5.61
1927	4.53	4.89	5.59
1928	5.15	5.34	5.70
1929	5.55	6.04	6.14
1930	4.69	5.07	5.90
1931	4.22	4.61	5.39
1932	4.40	5.05	5.61
1933	4.02	4.82	5.51
Jan. 1934	3.58	4.65	5.40
Feb. 1934	3.43	4.49	5.39

These rates are the yearly average of monthly averages as reported by banks to the Federal Reserve Board. The monthly averages are based upon rates reported for three types of cus-

FEDERAL MONETARY POLICY

". . . it may be admitted that Federal financing since 1931 and at the present time is in a transitional stage, and there is not much doubt that, if present uncertainties as to monetary and fiscal policies were removed, the Treasury would be able to float long term issues without difficulty at rates close to if not the equal of the 3 per cent rate reached in 1931 . . . the rate of 2½ per cent . . . might be reached." The picture shows Secretary Morgenthau and Senator Pat Harrison, chairman of the Senate Finance Committee

ACME

tomers' loans—commercial loans and demand and time loans on securities. They are weighted with respect to the relative importance of each of these three types of loans, the relative importance of each reporting bank and the relative importance of each city in each group. However, they are not weighted with respect to the amount of loans outstanding at particular times during each year or as between the several years.

There are, of course, all sorts of factors which brought about these variations, but all of them can be included in the terms "supply" and "demand". At the time of the high rates in 1920 the demand for credit was particularly strong on the part of both business and the Government, while the supply, though not exactly limited, was restricted somewhat by a comparatively small gold stock. In the following decade not only did Government demands fall off, but the amount of outstanding credit for the Government also declined tremendously, throwing great quantities of possible credit upon the market. Much of this available credit was taken up. Demands for business credit greatly increased, culminating in the speculative movement of 1928–1929, which pushed up interest rates in spite of a greatly increased supply of money and of credit based upon much larger gold stocks and greatly advanced property values.

Following the collapse of the speculative market in 1929, demands for credit for business more or less rapidly declined, while the credit demands of the Government increased rapidly, especially after 1930. Although the Government has borrowed around $10,000,000,000 since the low point of its post-war debt in 1930, its borrowings have not kept pace with the falling off in bank credit, and an increasing amount of loose funds have come upon the market. As against the Government's ten billion borrowing, total loans of all banks in the United States slumped from $41,376,000,000 on June 30, 1929, to $22,215,000,000 on June 30, 1933, in licensed banks only, an indefinite amount also being held by unlicensed banks and banks in the course of liquidation. During these changes there has been at all times a sound basis for almost unlimited credit if it had been called for with the offer of proper security. The falling off in bank loans, either from a lack of demand or a lack of demand which the banks could properly meet, has naturally left a great volume of bank credit available, with a tendency to depress interest rates. This tendency has been emphasized by the open market and bond buying policy of the Reserve banks.

The most notable effect of this plethora of funds has been upon open market rates for money, promptly reflected in Government borrowing. In the autumn of 1930, Government receipts so fell behind revenue that the Treasury commenced to borrow on short term at extremely low rates of interest. Later it attempted longer term issues and in 1931 most of its borrowings were in 10-, 15- and 20-year bonds at 3⅜, 3⅛ and 3 per cent, respectively. The last issue rather promptly went to a heavy discount and thereafter most of the Government's borrowing has been in short term securities at low rates. Open market rates as represented by the rates on 15-day acceptances fell from an average of about 5 per cent in 1929 to less than 1 per cent in mid-1932 and as low as ⅜ per cent in January, 1933. They have varied but little ever since, and the Government has been able to place short term funds at corresponding rates. In 1932 about 80 per cent of the Government's borrowings were in issues of less than one year, and 57 per cent were in the same category in 1933, the rest being in the intermediate categories. The result has been that in spite of its demands upon the market the average interest rate paid by the Government has steadily declined. The average rate on June 30, 1919, was 4.18 per cent. By June 30, 1932, it had been reduced to 3.57 per cent and by the end of last June it stood at 3.35 per cent. The budget estimates for the next fiscal year indicate an estimated average rate of 2.589 per cent on all outstanding interest bearing debt of the Government, this rate being based, presumably, upon a continuance of short term financing as the predominant practice of the Treasury for some time to come.

Recent longer term issues, rather intermediate in their nature, have been placed, term and all considered, at rates slightly (CONTINUED ON PAGE 80)

An Unreliable Substitute For Bank Management

FOR a quarter of a century or more American bankers have been aware of the increasing complexity of the laws, rules, regulations, administrative orders and local agreements which have hedged them about in the conduct of their institutions. No business, save perhaps that of insurance, has ever been the subject of so much extraneous control as that of banking in the United States. Much of this control arises from the nature of banking, much is the result of state systems of banks, while perhaps most of it is the result of efforts to make a coordinated and consistent whole out of heterogeneous patchwork of legislation covering a hundred years or more of national history.

What once was complexity is becoming confusion. American banking tends more and more to operate along a well defined groove. It can hardly be said to have fallen into a rut through any fault of its own; rather, it has been forced into a rut by bankers themselves to some extent but chiefly by the Government in an effort to adapt the system to the needs of the time and to correct abuses which might often be corrected by other and more consistent means with less resulting complication.

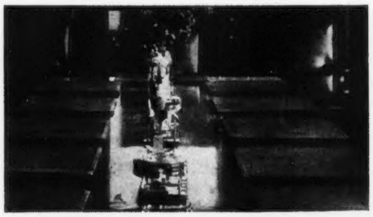
It is not so many years ago that the average bank was a one man institution, administered by the chief executive or, more often, by the chief stockholder through that executive. As banks have become larger and their organization more complex this one man rule has given place to what may be termed an institutional regime. Great banks nowadays are controlled less by dominant personalities and more by an institutional organization or set-up operated under rules and regulations formulated after years of experience and with the accumulated wisdom of successive directorates.

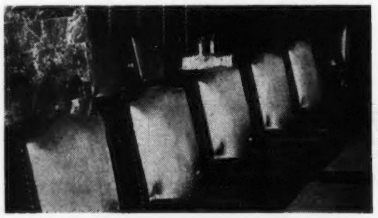
Their functions are divided into various committee, departmental and executive activities, coordinated in the directorate, which in the nature of the case can pass upon exceptional matters only. In many respects the departmental activities of great banks—loans, investments, foreign exchange, collections, trusts, and so on—are almost independent institutions. Branch banks are often less related to their parent institution in managerial control than in ownership. These conditions are reflected more and more in the set-up of smaller institutions. The result is that most banks of fair size are now operated more by rules than by personal judgment and responsibility, the rules and regulations tend to become more and more complicated, and many banks now find themselves in a straitjacket.

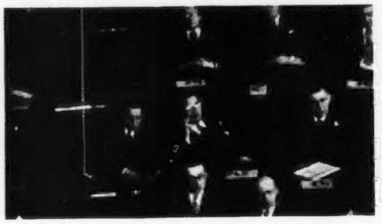
Elaboration of internal organization has been matched by increasingly close relations with other banks, which involves more rules and regulations. Local regulations, established by mutual consent among the banks, by clearinghouse associations and code organizations, are merged into rules and regulations of state groups; state group regulations into regional regulations and finally into those of national organizations. This vertical organization is impressive in its completeness. Most of it is the result of voluntary cooperation on the part of bankers in line with their experience. Undoubtedly on the

PUZZLE

". . . from the practical banking standpoint the complexity of these regulations is both confusing and restraining. Few bankers can now know exactly where they stand with respect either to the law or to the various supervisory and control agencies."







A Question of Too Many Cooks

Clearinghouse and Code Rules

State Laws

Federal Reserve System

Reconstruction Finance Corporation

Federal Deposit Insurance Corporation

National Industrial Recovery Administration

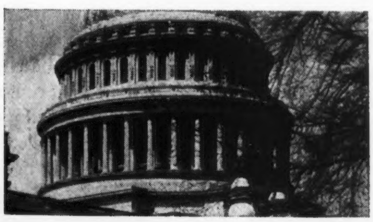
Banking Act of 1933

Myriad Rules, Regulations and Interpretations

Various Systems of Examination

whole it works toward solidarity and to the benefit of the banking business and of the general public, in increased safety.

But if there is any question as to the complexity of regulations of bankers themselves for the government of banks it pales into insignificance when compared with the system or, rather, systems of banking control now set up by law. In this there is horizontal regulation to complete a three dimensional control. Banking has long been accustomed to governmental supervision, has long recognized the necessity for it and has long accepted it as a means of strength rather than as hampering regimentation. State banks accept as a matter of course the control of their business by state laws through state superintendents. National banks also accept as a condition of their doing business the supervision and control exercised by the Comptroller of the Currency. With the organization of the Federal Reserve System member banks also accepted, though perhaps not altogether without some misgivings, the degree of superintendence and control originally exercised by the Federal Reserve authorities.



KEYSTONE PHOTOS

With the enactment of the Banking Act of 1933, however, new elements have been introduced. Out of the bank affiliate era have come regulations governing bank relations not only with group and chain banks, their own security companies and holding corporations, but also with all sorts of concerns with which they may have become involved in the protection of interests previously acquired.

They are told how much money they can spend on their banking plant, what property they may hold and what they may not hold, the minimum amount of money they can put into their business, what security issues they can handle and what they can not, who may be their directors and why, and so on. In the elucidation of the provisions of last year's act there is growing up a formidable list of decisions, rulings, regulations and opinions from supervisory authority reaching into almost every phase of the banking business.

Under the new law the Federal Reserve authorities have been given certain control over interest rates to be paid and interest rates to be charged; over the character of loans which may be made or rather which may not be made, and over a bank's relations with foreign governments. Each of these powers involves new rules and regulations. A new authority has been introduced in the examining power of the Federal Deposit Insurance Corporation with its own set of rules and regulations. The Reconstruction Finance Corporation also has entered the field of control and regulation through its loans to thousands of banks and its ownership of preferred stock or capital notes in—at last accounts—6,452 banks. Above all, perhaps, through the collaboration and cooperation of these various Federal agencies there has been established a control of the banks more elaborate, intimate and complete in detail than has ever before been exercised by all other authorities combined.

All these regulations—Federal, state and local—are cumulative. In the matter of interest paid for deposits and interest charged borrowers, for example, there is first of all local clearinghouse or other agreements to be considered. Then comes the matter of state law, which applies directly to banks with state charters and indirectly to national banks. The rates must then conform to the Federal acts and finally to such rates as the R.F.C. as a creditor or the deposit insurance corporation under its examining power may dictate if they care to interfere. In the character of loans which may be granted, a bank must now consider whether a loan transgresses the rules against loans on securities fixed in the Banking Act of 1933; whether it involves prohibited relations with its own officers or their families or (Continued on page 58)

Quick Protection

Police Coordination, through Radio and Teletype, Can Overcome Our Lack of Geographical Compactness

WITH the Administration at Washington moving rapidly into a national crime drive, strongly endorsed and supported by the President and taking the form of enactment of several important Federal laws designed to give a lift to the protective efforts and machinery of the states, attention is centered anew upon the development of state crime protective and preventive equipment. Something new in Federal cooperation is about to be inaugurated to supplement the growing coordination and cooperation between municipal and state police on the one hand and similar cooperative endeavor between states themselves on the other.

Crime prevention at present is largely a matter of making offenses extremely difficult. Detection is largely a matter of the speed at which nets may be spread to capture offenders, and in this the modern radio and teletype equipment shortens days into hours and hours into minutes.

Among the new forms of Government legislation will be measures making it a Federal offense to rob national or Federal reserve banks; extending the provisions of the motors theft act to other stolen property; making it unlawful for a person to flee from one state to another to avoid either prosecution or service as a witness, and extending the Government's power over interstate commerce to include telephone, radio and other types of communication. Kidnaping offenses will be presumed to be interstate if a person is missing more than three days. Through these acts the states will receive aid in suppressing rackets as well as capturing bank robbers.

England, where the number of persons sent to jail has been reduced to something under 50,000 from 160,000 in 1913, and where the prison population since the war has decreased over 70 per cent, is often cited as an ideal. For the good fortune which has permitted the closing of 27 jails since the war, England gives credit in part to her compact area and in part to the punishment, more certain than severe, which is visited upon her criminals. In time the United States can enjoy the equivalent of compactness by developing coordination and cooperation through modern electrical equipment, which shrinks distances and abbreviates time.

Progressive states which have been quick to adopt the latest tools in the war on crime have gone far in recent years. The JOURNAL obtained information, mainly from state police sources in various states, which gives the latest data on what has been accomplished, with special reference to radio broadcasting and teletype systems.

"Radio," says Oscar G. Olander, commissioner of Michigan's department of

INTERNATIONAL

CITY MAP

In the radio room of New York Police Headquarters, where every district in the city is closely watched

NATIONAL MAP

A map prepared by the Federal Radio Commission showing the location of municipal, state and general experimental police radio broadcasting stations, as of March 20, 1934

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public safety, "is our greatest element in combating crime." And to this, Daniel Needham, commissioner of the Massachusetts department of public safety, adds, "The importance of radio and teletype in police work cannot be overemphasized." He continues by saying that "speedy and accurate communication of information has become essential." The teletype, according to Wallace H. Smith of the bureau of criminal identification, Pennsylvania state police, is one of the "most valuable innovations" adopted by the state police in their war against crime while "the efficacy of radio in police work is not to be doubted." Col. H. Norman Schwarzkopf, superintendent of the New Jersey state police, describes teletype as "the most recent application of science to police work." He also says that "we have advocated that all police departments set up local radio equipment." For the New York state troopers, who maintain an elaborate system of two-way teletype communication and who are developing and experimenting with radio, George M. Searle, deputy inspector, remarks that "police information which was formerly known only to the few is now rapidly spread over a large area." Major John A. Warner, superintendent of the New York state troopers, commenting upon police use of radio, says that "in several important cases the radio installation was directly responsible for the immediate capture of the criminals involved."

To illustrate how far some of the states have already gone in utilizing the most modern instruments of science, Massachusetts is not only a convenient starting point but is typical of the ideal stage to which development may be carried. With three radio transmitting stations distributing information through four troop areas patrolled by cruiser cars equipped with receiving sets, Massachusetts also uses a teletype service controlled from the state house in Boston through which general broadcasts can be made to 25 state police stations in the Commonwealth and to cities and towns using teletypes, while, in addition, messages can be sent via Hartford and Albany through Connecticut, New York, New Jersey and Pennsylvania. There is even a "Coast to Coast" machine in the state house which makes possible the transmission of messages to the Pacific Coast and to any city, town or state police station in the United States where teletype machines are used. Radio and teletype have already played a notable part following several bank holdups in Massachusetts by aiding in the arrest of criminals in remarkably short periods. In two bank robberies at Brookfield and Taunton, arrest of the offenders was accomplished in eight and ten hours respectively. Interception of police radio messages by the criminals sought has come to the attention of the state authorities on only one occasion, and those using the low wave set to that end have been arrested and soon will be brought to trial.

In the state of New York, though the teletype service is elaborate, a police radio system was installed only as recently as October, 1933. The New York teletypewriter system has connecting links with those of Massachusetts, Connecticut, New Jersey and Pennsylvania. In the New York teletype service there are 70 stations in 24-hour operation, permitting close coordination between state police in rural districts and the police in cities and villages. Through its hookup with states nearby, the New York system can distribute information to 581 police points in five states. Since many cities and counties maintain tele-

Fast

A radio-equipped motorcycle in Washington, D. C. Lt. Kelley, right, has his hand on the speaker, the only part of the set which appears in the picture

U. & U.

type systems, police information so disseminated actually reaches 668 points in 5 states. According to Deputy Inspector Searle, state police cars in the vicinity of Buffalo are equipped with receivers and obtain information from the Buffalo transmitter. Police cars near Rochester and on Long Island pick up information from the Rochester and Nassau County police transmitters. This method is proving effective. The service is available without charge to municipal and village police, sheriffs and other police agencies.

The question of tuning in by criminals on the advices given radio cars is under considerable debate; since the information given does not tell the direction from which cars are coming and does not tell the whereabouts of the cars, many police officers do not take seriously the danger of leaks to ears for which the information is not intended. New York state, through its commissioner of correction, already has been able to note for 1933 a decrease of about 11 per cent in major crimes and an increase in the number of persons apprehended for committing major offenses.

In Michigan, sheriffs' offices, local police departments and state police detachments are well equipped with radio receivers, all tuned to the state police station WRDS at East Lansing, which is on the same wave length as the Massachusetts state police station WMP; the two stations broadcast messages for each other and find this cooperation has been a great help in reaching dead spots which one station or the other cannot reach.

Rhode Island already has installed short wave receiving sets in all state police stations and will soon have them in all cars, linked with the Providence police transmitting station. An extra set at headquarters is continuously tuned to Massachusetts state police broadcasts. The present system works well owing to the close and effective cooperation with the Providence police. Steps are being taken to provide a statewide teletype service linking state and local police. It is hoped to have this system working by summer, according to Edward J. Kelly, superintendent of the Rhode Island department of state police.

Oregon, which has had a department of state police only since August 1, 1931, recognizes the necessity for control of field personnel of a police organization in emergencies, according to Charles P. Pray, superintendent of the department of state police at Salem, and is arranging to install three teletypes. It is hoped to arrange a hookup with the statewide system in California on the south and in Washington on the north. In Oregon the topography apparently interferes with statewide radio police broadcasting; the alternative is stations of limited power in municipalities at different points, and three of these are now in operation. Police motor vehicles are equipped with receiving units.

In Maine there is a prospect of a radio hookup or teletype system for the state highway police located in barracks at four points. Maine has had no bank robbery in many years; in the case of one bank "snatched", the state police showed their efficiency by arresting the culprit in two hours.

In New Jersey the basic system used is that of the teletype. Sending stations are all connected with a master sending station in such a way that the master station can communicate directly through them with all receiving stations and, in addition, with New York City and Philadelphia. Through Philadelphia all Pennsylvania can be reached.

Some of the advantages of this method of distributing police information, says a report of the New Jersey state police, include instantaneous distribution, the vast territory which may be reached, absolute accuracy in reception of the message and the secrecy which may be observed because there is no way in which such messages may be intercepted. There is also the great ease of operation of the system as an argument in its favor.

NEED FOR COORDINATION

PENNSYLVANIA is an enthusiastic user of the teletypewriter through which an operator can reproduce a message on receiving machines at 113 different points in the state. Pennsylvania also uses the five-state hookup. Through the use of codes or modern scrambling devices which may come into use in the future, police expect that tuning in by criminals on radio broadcasts will not long be a problem. Pennsylvania expects to have all police cars radio-equipped by June 1. The state police, using teletypewriters, have greatly improved the bank robbery situation; during 1933 there were 10 such robberies and no bank burglaries. Eight of the ten robberies have already been solved and the guilty persons apprehended. The prime requisite of police methods in bank robbery or any other criminal cases, the authorities observe with penetration, is coordination.

The Utopia which appears to lie around the corner in these United States will be achieved when all the state and local police of the 48 states, modernly equipped with teletype or radio or both, will function harmoniously as though they were a single force under one head. In Europe, geographical compactness makes possible divergence; in the United States, coordination and cooperation should make up for lack of geographical compactness.

Instantly

In the Washington, D. C., police radio division the dispatcher transmits a call to cruising motorcycles of the department

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"Section 5219" In the 73rd Congress

State Taxation of National Banking Associations and State Member Banks

By MARTIN SAXE

Mr. Saxe is a well known authority on banking taxation

THE persistent problem of national bank taxation which has been before Congress for over a decade appeared in the 73rd Congress in the form of the following five bills: The Norbeck (S. 1502), Fletcher (S. 2788), and Shipstead (S. 3009) in the Senate, and the Hancock (H. R. 5045) and Steagall (H. R. 9045) on the House side.

Since 1926, Section 5219 of the Revised Statutes, as amended (U.S.C., Supp. 5, title 12, ch. 4, sec. 548), has provided *four alternative* methods for the state taxation of national banks. They are:

(1) A tax on the shares.

(2) Inclusion of dividends in the taxable income of the owner or holder.

(3) A tax on the net income of the bank.

(4) A tax on the bank according to or measured by the entire net income from all sources.

UNDER the statute the imposition of any one of the above four forms shall be in lieu of the others except that in the application of alternative method (4), method (2) may also be employed additionally provided the taxing state likewise taxes other corporations and their stockholders. It is also provided that in application of alternative methods (3) and (4) the rate assessed shall not be higher than that upon other financial corporations nor higher than the highest of the rates upon mercantile, manufacturing and business corporations. In the case of the taxation of the dividends under method (2), the rate shall not be greater than that assessed upon the net income from other moneyed capital.

So, too, in the application of a tax on the shares under method (1) the tax imposed shall not be at a greater rate than is assessed upon other moneyed capital in the hands of individual citizens coming into competition with the business of national banks.

It is evident that Congress, in connection with the grant of power to the states to tax national banks (which banks as Federal instrumentalities the states are without power to tax at all except by permission of Congress) has consistently appreciated the necessity for fixing comparative tax limitations to insure against excessive and discriminatory state taxation.

All of the above pending bills seek only to change the present tax comparative limitation of the share tax method, to wit, "other moneyed capital in the hands of individuals coming into competition with the business of national banks." The Fletcher Bill (S. 2788), in addition, extends the protective provisions of Section 5219 to state banks in the Federal Reserve System.

The Norbeck Bill (S. 4291) as introduced in the 72nd Congress, although reported, failed of passage by the Senate and was re-introduced (S. 1502) in the first session of the 73rd Congress. It provides that in case of a tax on shares, "the taxes imposed shall not be at a greater rate than is assessed upon *other moneyed capital used or employed* in the business of banking." The practical effect of that comparative is to authorize the classification of the banking business by itself for taxation without regard to the taxation of any other property or class. The report accompanying S. 4291 in the 72nd Congress will be hereinafter discussed.

The Hancock Bill (H. R. 5045), also introduced in the first session, provides in connection with the taxation of the shares, that the taxes imposed shall not be at a greater rate than is assessed upon other moneyed capital "*used or employed in business* and coming into *substantial competition* with the business of national banks in normal banking activities of said banks." While that comparative somewhat expands the comparative class beyond the "banking business" exclusively, it would seem to afford hardly any more protection in classification except in the important financial centers of the country.

The Shipstead Bill (S. 3009) and the Steagall Bill (H. R. 9045), both introduced in the second session and both of which are substantially alike, take away all the long-established protection against excessive and discriminatory taxation of national banks embodied in

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Mr. Glass

the present law. These measures authorize the state taxation of national banking associations upon the sole limitation that such taxation "shall not be at a greater rate than is imposed upon the shares, business income, and/or property of state banks," thus making for the classification of state and national banks by themselves regardless of the taxation of any other property or class and authorizing *cumulative* taxation of the shares, business income and property of the banks. With the ever-increasing demand for revenue, both classes of banks would be exposed to the danger of the heaviest sort of taxation without any safeguard whatsoever, if such legislation were enacted. The Shipstead and Steagall bills emanate from the Association of States on Bank Taxation, the organization of state taxing officials.

With regard to the vicious principle involved in the tax classification of state and national banks by themselves, the Glass report accompanying the Fletcher Bill (S. 2788), hereinafter referred to, states:

> "If the banks themselves were classified alone for taxation without limitation and regardless of the taxation of any other large class or widely held property, then whenever a State would undertake to replenish its revenues from that source it would readily follow that both National and State banks might be called upon to sustain a far greater part of the cost of government than their fair share. Hence any limitation on the State taxing power with respect to national banks that would authorize the classification of banks, National and State, by themselves alone, would prove wholly illusory in practice."

Coming now to the report accompanying the Norbeck Bill (S. 4291) in the 72nd Congress (re-introduced in the 73rd Congress as S. 1502), it is stated:

> "This bill confines the taxation of shares of national banks to rates not in excess of those imposed upon State banking institutions. . . .
>
> "It has developed recently that any intentional or systematic discrimination against either national banks or State banks could be voided under the equal protection clause of the fourteenth amendment. (See Iowa-Des Moines National Bank v. Bennett, Chairman, et al., 284 U. S. 239.)"

That Senate committee report was written in April, 1932. But let us compare the quoted statement with what the Supreme Court actually decided in February, 1933, in *Union Bank and Trust Co.* v. *Phelps* (288 U. S. 181).

In that case, a state bank sought to recover alleged illegal taxes on its shares on the theory that such taxes had been exacted in violation of the equal protection clause of the XIV Amendment; this was because the state supreme court had previously held that national bank shares were not subject to taxation under the state revenue law or otherwise, on account of the existence within the state of untaxed moneyed capital in competition with the national banks, in view of the provisions of Section 5219. Referring to *Iowa-Des Moines National Bank* case, cited in the report on the Norbeck Bill, the court said:

> "Counsel for petitioner stoutly maintain: Shares of State and National banks belong to the same species of property. Not only are they essentially similar, but for many years the Revenue Statutes of Alabama have put them in the same category. Under the scheme of taxation presently existing in the State, National bank shares escape assessment while shares of State banks are subject thereto. Consequently, the latter are deprived of the equal protection of the laws guaranteed by the XIV Amendment.
>
> "*A sufficient answer is that within the intendment of the XIV Amendment shares of National and State banks are not essentially the same when considered in connection with taxation.* Nor do they become so merely because the State has attempted to subject them to like treatment. . . .
>
> "*Iowa-Des Moines National Bank* v. *Bennett*, 284 U. S. 239, much relied upon by petitioner, *is not controlling*—the circumstances and issues there involved were wholly different from those here presented. . . . There was no occasion to consider whether failure by a State to tax National banks while subjecting her own banks to taxation would occasion discrimination against the latter forbidden by the XIV Amendment." (Italics supplied.)

Thus the *Union Bank and Trust Company* case makes it quite clear that the XIV Amendment affords no protection to national and state banks as a class for taxation. The only effective method by which both national banks and state banks in the Federal Reserve System can be given protection is as provided in the Fletcher Bill (S. 2788) as indicated by Senator Glass' report on that measure.

The Fletcher Bill does two things. First it provides that in cases of a tax on shares "no tax burden shall be imposed in any taxing district upon said shares greater than the average burden imposed in that district on other taxable intangible personal property therein." Thus the impractical comparative of "other moneyed capital in the hands of individuals coming into competition with the business of national banks" is done away with. On this feature of the bill the Glass report says:

> "Outside of the important financial centers, competitive moneyed capital is difficult of ascertainment by assessing officers and of legal proof by banks whose shares are excessively taxed or otherwise discriminated against. The assessment of bank shares is always thoroughly efficient but the assessment of competing moneyed capital of individuals, for obvious reasons, is not. It is now well known that capital of corporations is employed

in large amounts in the same class of loans and investments which the banks hold. Yet, under court decisions, the moneyed capital of corporations is not within the present comparative test. Only when the main business of such corporations is in direct competition with banks are their shares considered to be moneyed capital. Moneyed capital in the hands of individuals in competition with banks varies widely in character and amount in different localities and with the intricacies of present-day finances has become a very uncertain and, in many cases, impracticable comparative for the limitation of the taxation of bank shares.

"Bank shares are essentially intangible personal property and there is no reason why investment in such shares should be subjected to any heavier tax burden than investment in other intangible personal property; particularly as the public interest now requires renewed investment in banks. Indeed, sound tax classification requires the grouping of bank shares with other taxable intangible personal property to insure the imposition of fair and nondiscriminatory taxation. This is accomplished by limiting their taxation to that of the average burden borne by the rest of the class."

The present tax comparative limitation of "other moneyed capital in the hands of individuals coming into competition with the business of national banks," under the share tax method, in its practical application involves technical difficulties of legal proof in establishing discrimination against bank shares, even where the existence of it is a matter of common knowledge. Two recent Supreme Court decisions show this.

In the *Kentucky* case, decided in 1927, (*Georgetown National Bank* v. *McFarland*, 273 U. S. 568) the Supreme Court pointed out that the plaintiff bank, in seeking to establish that the favored capital was in competition with national banks, relied principally upon the proof that there were substantial amounts of capital invested in the state by individuals in bonds, notes, accounts and mortgages, which it was contended represented moneyed capital in competition with national banks; that no attempt was made to show that there were other businesses or courses of investment in the state employing moneyed capital in competition with national banks; and that the evidence with respect to capital invested by individuals, taken as a whole, fell short of establishing that such capital so used was employed substantially as in the loan and investment features of banking in making investments by way of loan or discount or in notes, bonds and other securities, with a view to sale or repayment and reinvestment.

In the *Louisiana* case, *First National Bank of Shreveport* v. *Louisiana Tax Commission*, 289 U. S. 60 (1933), the Supreme Court wrote that it was not warranted in disturbing findings of the highest court of the state which had held that it was necessary for the complaining national banks to prove not only that they were empowered by law and authorized by their stockholders to engage in some line of business in which the favored non-banking concerns were engaged, but that, during the tax year, moneys of these national banks were in fact employed in substantial amount in some line of business which was carried on, during the year, by the less heavily taxed non-banking concerns; that it was as necessary to prove that the capital of national banks was so employed as it was to prove that moneyed capital was actually employed by others in substantial competition with the national banks.

The second feature of the Fletcher Bill is an entirely new provision in Section 5219. Added "Clause 5" to that section provides as follows:

"5. As a further condition upon the exercise of the permission for the State taxation of national banking associations, their net income, shares, or dividends thereon, State banks or trust companies which are members of a Federal Reserve bank shall not be taxed at a greater rate than national banking associations, their net income, shares, or dividends thereon are taxed by the taxing State as provided by this Section."

With respect to that provision the Glass report states:

"Section 2 of the bill adds a new clause numbered 5, in section 5219, making as a further condition upon the exercise of the permission for State taxation of national banking associations, under the various

Mr. Fletcher

U. & U.

alternative methods, that State banking institutions which are members of the Federal Reserve System shall not be taxed at a greater rate than national banking associations may be taxed pursuant to such alternative methods. The theory of this proposal is the constitutional power of Congress to impose any conditions it deems proper in connection with the permission to the States to tax a Federal instrumentality. It is a wholly reasonable condition for the protection of the Federal Reserve System and its development that when States desire to place upon State member banks a heavier burden of taxation than Congress permits in the case of national banks, such States should not have the benefit of the grant with respect to the taxation of national banks."

And in conclusion the Glass report makes the interesting comment that

"S. 2788 is the result of more than 10 years of study by the special committee on section 5219 of the American Bankers Association, which association is the representative body of all the banks, both national and state, throughout the country. The American Bankers Association is sponsoring this legislation as the sound solution of the troublesome problem of bank-share taxation which has been before Congress continuously during the past decade."

The Month

Employer and Employee

President Roosevelt returned from his vacation, strong and ready for the principal task ahead—the reconciliation of differences between the men who work for wages and the men who pay them

U. & U.

U. & U.

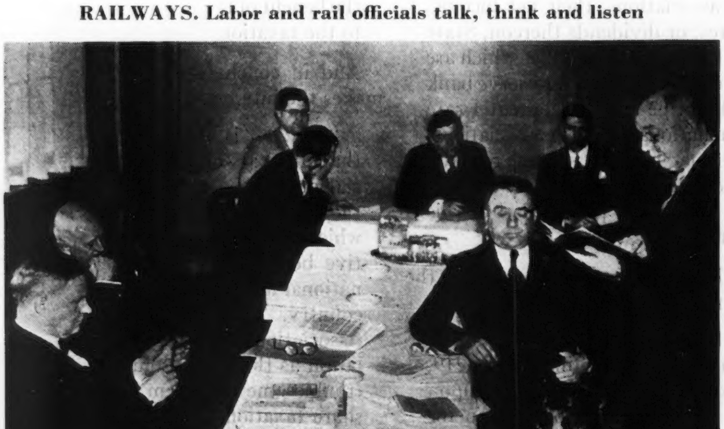
COAL. John L. Lewis waylaid by reporters

INTERNATIONAL

INDUSTRY. James A. Emery, general counsel of the National Association of Manufacturers, disapproves of the Wagner bill

AUTOMOBILES. Labor Board Members Wolman, Kelley and Byrd work in Detroit

RAILWAYS. Labor and rail officials talk, think and listen



KEYSTONE

KEYSTONE

EDITORIALS

Banking's Power of Recovery

NO ONE can read history without a profound belief in the fundamental strength and resiliency of the United States and the assurance that recovery from the current depression will rapidly gather strength and push on to complete rehabilitation. Banking will go with it, promptly and fully, in many cases leading the way. Undoubtedly the experience through which banking has been passing in the last two or three years has cut away many false growths, many sources of fundamental weakness. It seems probable that with these faults removed the banks will recover rapidly.

During April bank clearings in 21 cities reached the highest point since January, 1932, and the increase was ascribed to interest and dividend payments, larger payrolls and increased business turnover rather than to transactions on the stock exchanges, which so often swell these returns without a corresponding increase in actual business.

DEPOSITS ARE UP

DEPOSITS in the banks continue to increase, net time and demand deposits in reporting member banks in the Reserve System rising by about $400,000,000 from mid-March to mid-April. Excess reserves of member banks in the System increased by a hundred million dollars and continue around $1,500,000,000. In spite of this huge pool of available capital the commercial and industrial credit situation remains static. Loans and investments of reporting member banks as reported on April 9, for example, were $1,581,000,000 larger than on the corresponding date in 1933. The increase was more than accounted for by an increase of $1,601,000,000 in investments of which $1,590,000,000 were in Government securities. Hence, in the year following the bank holiday there was an increase of only $11,000,000 in miscellaneous investments and a decrease of $20,000,000 in loans. That a large part of these idle funds would immediately flow into investment channels for the financing of heavy industry is indicated by reports of banks and investment houses of increasing anxiety on the part of investors for acceptable securities.

As has been the case for many months, now, the result of this plethora of idle funds continues to be felt in the appreciation of prices of such securities of high standing as are available in the market, with a slight tendency to dip into more speculative pools. Average return on three long term Government issues fell from 3.46 per cent on March 11 to 3.3 per cent on April 14; the average price of 20 high grade railway bonds, which was 87 on March 15 and as low as 74.1 in January, reached 92.1 by the middle of April. In the same period 20 industrial bonds rose from 80.3 to 83.1, and 20 utility bonds from 87.7 to 89.4. In the same 30 days 50 industrial stocks rose from 97.9 to 98.9; 20 railroad stocks fell from 50.0 to 49.5; and 20 utility stocks fell from 77.8 to 75.1. In the ups and downs of the market, legislative threats against stock exchanges played as much of a part as current and prospective business conditions.

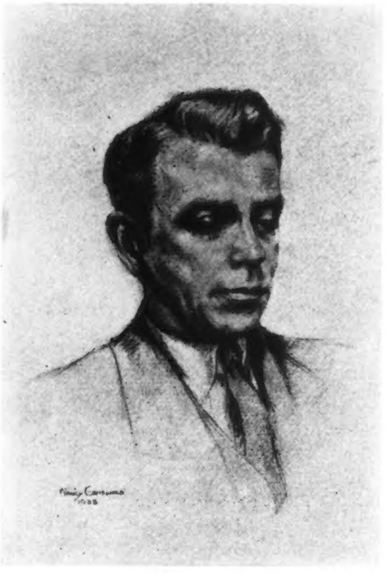
Condition Statements

PUBLISHED condition statements of typical individual banks following the March call reflect a greater degree of normalcy than any similar statements for the past 18 months. There is still a superabundance of Government securities in their portfolios and extreme liquidity still characterizes most of them, while loans are chiefly conspicuous by their absence. Investments in other than Government securities, however, are slowly on the increase, reporting member banks showing an increase of about a hundred million dollars of such investments in their latest reports as compared with the first of the year. There can be no other impression derived from this situation than the conviction that the banks are ready and prepared to finance every phase of recovery just as soon as business is relieved from the restrictions which legislation and Governmental policy have forced upon it.

PARTNERSHIP

THERE is a community of interest between the banks and the Government. Neither can well get along without the other. If the Government is now the dominant partner in the firm, it is because banks, to some extent at least, have abdicated their powers and relinquished their rights under pressure of extraordinary circumstances.

As conditions become more normal, banking will return to its old position in the partnership. That position will be modified in many respects. Supervision will be more exacting and banking activities will be more circumscribed. But it is probable that in the long run the changes will be for the better, both for the public and for the banks.



The Present Sources

By J. H. SIMPSON

The author is a West Coast banker and this is not the first time he has written for the JOURNAL

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DURING the past decade or so—not merely since October, 1929—a subtle change has come over the face of American banking. The change dates from the time of the grand entry of the American public into the stock and bond markets. And the change has affected—and continues to affect—the profits of banks to a very unpleasant degree.

Prior to the Great American Delusion—that the way for everybody to get rich was for everybody to lend his money and his credit to our industrialists and promoters, via the stock markets, for them to do with as they would—prior to this, banks financed industry. That was what one might call their principal function. To enable them to fulfill this function they had, of course, to obtain deposits, but the deposits were a means to an end—the end being loans. The means were angled for by advertising, high interest rates, par concessions of all kinds, and so on. Why not? There was only one problem—how to get the wherewithal to satisfy the needs of our entrepreneurs and builders.

The banker was a middleman dealing in credit. He purchased his credit in small lots from the general public, sometimes paying no interest, sometimes paying as high as 4 per cent, and he sold his credit in larger lots to the manufacturer, the builder and the merchant at 6 or 7 or 8 per cent. While this condition lasted, the banker—unless he was either very unwise or very unlucky, or both—made money. The difference between 0 to 4 per cent and 6 to 8 per cent provided a very soft cushion with which to absorb the cost of the service to the public which the banks gave—and still give—in exchange for the deposits received from the public. It was even a large enough and soft enough cushion to absorb, in most cases, that item of bankers' horror—"debts written off".

But with the beginning of the first post-war boom came the subtle change referred to above. Gradually the bankers began to lose their function of credit middlemen. The average American, instead of giving his individual mite to the banker, for the latter to combine with other mites and lend to American business, started to lend to American business direct.

One could not blame American business for switching its borrowings from the bankers—with their demands for statements of affairs, profits accounting, seasonal clean-ups, etc.—to the public, which demanded nothing except a nicely engraved stock certificate or sinking fund "gold" bond. The practice—as with most of the financial practices of the day—received not blame but praise. Even bankers joined in the cheers when several of our largest potential borrowers published balance sheets showing hundreds of millions of dollars in cash reserves. Those were the days when a banker who "viewed with doubt" was shunned alike by his customers and by his fellow bankers.

Some bankers actually welcomed the change. Another, and they thought less troublesome, field had opened up—collateral loans. It was found that to take the place of Big Business borrowers we had the Frenzied Finance borrowers—although the term "frenzied" was not applied until after the cold white dawn of the Thirties. As the prosperous Twenties ran their course the banks found their loan fields expanding rather than contracting.

But what a curious expansion it was! In the old orderly pre-war world the banks borrowed from the public to finance industry. In the New Era it was the public who borrowed from the banks to finance industry! And Big Business, instead of borrowing money lent money—on the call loan market. The substitution, by the banks, of loans to the public and to brokers, secured by stocks and bonds, for ordinary commercial advances was swiftly and easily encompassed. Banking profits were not only saved—they were increased—and few saw the danger signals far off at the end of the road.

Even today Big Business, which according to the orthodox theory of banking should be a seasonal borrower from the banks, is amply supplied with cash and Government securities in all seasons. As a result of this, and of the passing of the loans to Frenzied Finance, the balance sheets of most of our banks show a ratio of about three dollars in deposits to one in loans. Part of the other two dollars of deposits remains in cash and part in Government and other high grade bonds.

How can we deal with the situation? It is realized that the banks cannot manufacture loans. At least, this fact is realized by bankers. It does not seem to be realized by our critics, who would have us go out on the streets and solicit loans. And with the uncertainty which still surrounds our tender nursling, Recovery, sound bankers dare not invest in second grade bonds and thus obtain a higher return on their investments to offset the drop in the loan income.

And so there remains only the new gospel of service charges. A shadow of

# of Bank Income

The Decline in Revenue from Loans Doubly Increases the Importance of Adequate Charges for Service

profit from the deposit side for the substance of profit from the loan side.

Nothing is further from the mind of this writer than to decry service charges. He advocated them, for instance, in an article entitled "More Routine Profits Required", published in the January, 1930, number of this JOURNAL. Only while the major functions of banking were so profitable could the minor functions be performed as a gratis service.

But, contrary to the belief of many of our critics, bankers do not like service charges and a majority of our banks is still doing far too much for nothing. The dominant attitude of most of the committees of bankers now engaged in drawing up schedules of uniform charges under the Bankers Code is one of distaste for the whole business. The men on the committees resent the fact that they, who, as loan bankers, used to devote their brains and energies to the consideration of applications for credit, must now, as deposit bankers, fiddle about with such questions as whether a depositor should be charged three cents per certain type of item deposited, or four.

But the grim fact is that banks can no longer afford to give free service. Common sense and self-preservation alike demand that the deposit customer pay his way now that so many of the borrowing customers, who used to pay it for him, are no more. Bankers, however, must remember this fact—that the object of service charges is not profit but the avoidance of loss. All the schedules are based on costs. Once that basis is exceeded, one's checking account customers begin to say, "Sorry, Mr. Banker, but I guess a checking account is too expensive for me. I'll have to close out." Only their opening is more likely to be expletory than apologetic. Even the existing service charges—in most cases inadequate as stop-loss measures—have tended to drive the checking account customer into the street, or into the savings department. Compare the combined figures of the banks, including the savings banks, in the city from which this article is written:

	MARCH 31, 1929
Demand deposits......	$121,663,357
Time deposits.........	102,514,715
	FEBRUARY 28, 1934
Demand deposits......	$107,265,620
Time deposits.........	104,179,379

It will be seen that the decline in demand deposits is over 11 per cent, while savings deposits—all interest bearing, of course—actually show an increase.

The stoppage of interest on demand deposits—a life-saving measure for which the banks must give credit to the Government rather than to any constructive cooperation among themselves—and the reductions which so far have taken place in the rates paid on savings deposits are far more effective remedies for the present ills of the banks than are service charges. Logically it would seem that, pending the re-opening of profitable loan fields, the rates on savings deposits must be still further decreased. As a matter of fact, decreases are still being made. But, from the standpoint of national recovery, further reductions in interest rates on deposits are sincerely to be deplored. Savings interest is income, and incomes must be raised, not lowered.

The long and short of it is that Mr. Jesse Jones is right—"Our banking system has no place for mere depositories."

Our life-blood is loans. But how are loans to be made? Our Class A customers are no longer borrowers. That leaves the Class B customers. And in a world struggling to adjust overproduction with a collapsed buying power how are our Class B customers, in hazardous competition with Class A, to market the goods which inevitably our loans would enable them to produce? Banking credit can finance industry to supply existing markets, but the theory that banking credit can of itself create markets is a new and dangerous unproved theory.

If the Government will guarantee the banks against their borrowers, as it has partially guaranteed depositors against the banks—then the banks could send loan-catchers out on the streets. But failing such a step (and of course the suggestion is not made seriously) bankers cannot lend their funds until repayment is more clearly in sight than it is in the case of the great majority of the present loan applications.

An interesting suggestion has been made—that the much abused Securities Act of 1933 may be a blessing in disguise, to bankers at least. The theory is that the difficulties being placed in the way of securing loans direct from the public, by marketing new securities, may force many Class A borrowers to return to the banks for their needs. This would be a step towards the restoration of the banks' time-honored function of middlemen of credit—a consummation devoutly to be wished.

Pending this consummation let us make the best of our service charges but let us realize that that best is a poor best and that as "mere depositories" we cannot, in the form of privately owned institutions, continue indefinitely to exist.

Municipal Credit

Restore and Maintain

By HOWARD P. JONES

The author is secretary of the National Municipal League and editor of the *National Municipal Review*

EVERY banker is naturally concerned with any important development affecting credit or property values in his city. Failure of a municipality to meet its obligations affects both. He appreciates that social values are reflected in economic values; that good schools are as great an asset as good policemen; that efficient government means as much to the community from a monetary standpoint as a well run factory.

If his city defaults on its bonds, the reverberation of the crash in public credit will have its effect upon private credit. It will have its effect, too, upon the willingness of industry to make further commitments in the community, and it will, perhaps most important of all, cause a serious shock to local community pride, confidence and self-respect. With all these things, the banker must concern himself.

He must concern himself with the problems which arise if a city curtails its essential services to a serious extent. Police protection, fire protection, the maintenance of streets and sewers, schools and libraries, public health work, recreation—all these services are reflected directly in property values in the community, not to mention their vital importance if human values are considered.

All this concern and more he has with city government, even though he may hold no city bonds. Now then, if we add to this interest the consideration that he holds city bonds or short term notes and is helping to finance the city over a critical period, his interest becomes even more immediate and acute.

There is an old proverb which says, "When money's taken, freedom's forsaken." It is merely a concise way of saying that a borrower surrenders to the lender some measure of control over his own affairs. Now, legally, this is not possible in the case of city governments. Actually, it becomes unavoidable as a result of the compulsion of hard times. A city may want another loan sometime —indeed, if it is in the position of most cities which have to borrow in anticipation of tax collections because of the lack of coordination between their budget and tax years, it knows that it must depend upon the banks for current financing. Consequently, city authorities are apt to lend a fairly willing ear to advice from the man who controls the purse strings.

From the banker's point of view, the advice may be necessary. Anxious as he is to see the city government continue operations without default on either bonds or services, his primary concern is to see that he gets his money back. If a government's budget does not balance, if it is apparent that over a period of time its income is being exceeded by its outgo, the banker is bound by his obligation to those whose money he is lending to insist that certain precautions be taken to insure the repayment of the loan.

The bank, trust company, insurance company or savings bank which is buying municipal bonds for investment is in the same position with respect to many municipalities. It is this responsibility that has given rise to real alarm as one municipality after another has defaulted on its bonds. Nearly 3,000 municipalities have defaulted to date, and many others are in serious financial difficulties. However, this debt picture is not so (CONTINUED ON PAGE 42)

FOR CITIES AND THEIR CREDITORS

The special subcommittee of the Senate Judiciary Committee, appointed to study the municipal bankruptcy bill. Senators Neely, Van Nuys and McCarran

U. & U.

alarming as it sounds. Nobody knows how many municipalities there are in the country that have the power to borrow money. The number is probably somewhere between 100,000 and 200,000, however. In any event, the percentage of defaults to the total number of taxing units is relatively small.

What hurts, of course, is that a few years ago a municipal bond was considered a gilt-edged investment. So long as the buyer made certain he had a genuine and not a forged municipal bond, he felt secure. The idea that a municipality might be forced into a position where it could not meet its obligations was simply unthinkable. Investors forgot that, after all, a municipality is simply something less than the sum total of the individuals in the community. If the individual citizens are out of jobs, if they have spent too much money (or their representatives in public office have spent it for them), if they have allowed their community financial affairs to become involved, they may find themselves, as a group, in the same position as an individual who cannot pay his debts. And anybody who thinks it possible to foreclose on property to redeem a municipal debt is welcome to try it.


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SEVEN MAYORS

A group of mayors who, a few months ago, conferred in Washington with Government officials, including the then acting Secretary of the Treasury, Mr. Morgenthau. From the left, seated, Mayors La Guardia of New York, Curley of Boston, Sparks of Akron and Walmsley of New Orleans and Mr. Betters, secretary of the conference. Standing, Mr. Moffett of New York, Mayors Hoan of Milwaukee, Ellenstein of Newark and Dykstra of Cincinnati

A TOWN OF 140,000

BUT we are not concerned here with what happens after a municipality has defaulted. We are interested, instead, in prevention of default. The solution divides itself into two parts: emergency methods and long range prevention.

To illustrate. Consider the actual case of an eastern community of about 140,000 inhabitants. For convenience we shall call the city Boonville. In December of 1933 Boonville was on the edge of default. It looked as though only a miracle could save the situation. Up to the first of December the city had collected but 67 per cent of its 1933 taxes and there was still outstanding 15½ per cent of its 1932 taxes. The city at that time had outstanding approximately $7,000,000 of short term paper, most of which was in default as to principal although interest to date had been paid, and there was more than $3,000,000 of claims against the city including back salaries. As against these items there was cash on hand of approximately half a million dollars, most of which was tied up in a closed bank.

The will and the ability to pay are of course the primary considerations in municipal credit. Boonville had been consistently demonstrating its will to pay in accordance with its ability. During the year 1933, for instance, all bond maturities (to the amount of about $3,000,000) had been met promptly, and all interest on both funded and floating debt. In spite of the serious tax delinquencies, only a million dollars had been added to the city's indebtedness during the year.

The city's immediate situation was more than critical. It was apparent that only through the most intelligent cooperation between banks and public officials could default be averted. From the standpoint of the banks, the city had to continue to pay principal and interest on its bonded debt, and retire a substantial portion of its floating debt during 1934. From the standpoint of the public officials, this had to be done without serious curtailment of essential governmental services.

Right here, however, it should be emphasized that the financial interest of the bondholder is just as great in the maintenance of essential community services as is that of the public official. After all, in a city all power flows from the citizen. That means that in any critical financial picture there are three definite interests to be considered. They often appear conflicting. Actually, they are in harmony. These are the interests of the banker or bondholder, the public official and the taxpayer.

Frequently it is assumed that the interests of the public official and the taxpayer are identical. Perhaps just as frequently it is assumed that the interests of the bondholder and the taxpayer are identical. They are in harmony but far from identical. The bondholder, for instance, might insist that city services be sacrificed so that debt service might be paid. There comes a point, however, where the taxpayer, at first on the side of the bondholder in insisting that public officials reduce the cost of government, rebels. This point is reached when the curtailment of governmental services begins to affect himself or his family—when the neighborhood school or library shuts down, or when the pavement in front of his house begins to break up for lack of maintenance or when a burglar gets into his home and there are no policemen within call. When he finds that he isn't getting any services for his tax dollar, he's likely to stop paying. Then everybody loses and nobody gains.

But to return to Boonville. A survey of the city's financial condition was made. It was evident from that survey that there were two distinct pictures—the immediate picture and the long range picture. The immediate picture looked bad, the long range picture looked good. The survey had demonstrated that the city government had up to that point made little reduction in the budget—it was estimated by governmental experts that approximately 20 per cent could be eliminated from the budget and services still be adequately (CONTINUED ON PAGE 60)

Legal Notes and Digest

State Banking Statutes and Federal Legislation

INTERPRETATIONS and opinions given here are prepared for the JOURNAL by the Legal Department of the Association, under the direction of D. J. Needham, General Counsel.

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STATE legislators are vitally concerned with recent developments in Federal legislation. This seems to be particularly true in the banking field. The following are some of the more important items which are of interest to state governments.

I. INTEREST ON PUBLIC FUNDS

Section 11 (b) of the Federal Banking Act of 1933 prohibiting, in general, the payment by members of the Federal Reserve System of interest on demand deposits, contains an express exception as to public deposits of a state or of a political subdivision "with respect to which payment of interest is required under State law." New York, for example, followed such Federal legislation with an express statutory declaration as to interest on public funds.

II. PLEDGE OF ASSETS FOR PUBLIC DEPOSITS

Section 5153, United States Revised Statutes, as amended in 1930, provides that a national bank "may, upon the deposit with it of public money of a State or any political subdivision thereof, give security for the safe-keeping and prompt payment of the money so deposited, of the same kind as is authorized by the *law of the State* in which such association is located in the case of other banking institutions in the State." This Federal statutory provision is made more significant by the recent ruling of the United States Supreme Court that national banks have no right in the absence of a Federal statutory provision to pledge assets even for public deposits. Some controversy may exist as to what the policy of the state should be. The United States Supreme Court stated that a pledge of assets by a bank for any deposit constitutes poor banking practice. Many bankers share this opinion. Whatever the policy of the state, it should be clearly expressed and not left to conjecture.

III. SUPERVISION OF PRIVATE BANKS

Section 21 (a) (2) of the Federal Banking Act of 1933 provides that such private banks as are not "subject to examination and regulation under State or Federal law" shall be subject to examination by, and make reports to, the Comptroller of the Currency or the Federal Reserve Board. This provision, which becomes effective on June 16, 1934, will probably stimulate state legislation relating to supervision of private banks.

IV. FEDERAL RESERVE MEMBERSHIP

The Federal Banking Act of 1933 permits mutual savings banks, Morris Plan banks, and similar institutions to join the Federal Reserve System. This calls for a declaration of legislative policy by the states as to whether they desire such institutions to join the System. A factor in this connection is that membership in the Federal Reserve System carries with it participation in the Federal deposit insurance system.

V. DEPOSIT INSURANCE

Clear-cut state legislation seems desirable as to the authority of state-chartered non-members of the Federal Reserve System to participate in Federal deposit insurance. Such legislation may deal with both the temporary and the permanent system. If authority to join the permanent system is given, it would seem well to include a specific authorization to purchase stock in the Federal Deposit Insurance Corporation. The legislation may deal with the authority of the Federal Deposit Insurance Corporation to act as liquidating agent for closed state banks.

VI. FEDERAL CORPORATIONS

Newly created Federal corporations have caused considerable state legislation. This involves authority to banking and trust institutions to purchase the obligations of such corporations, both for their own account and as corporate fiduciaries. It involves also the authority to pledge such obligations for deposits of public funds and for obligations as corporate fiduciaries. Several states have expressly authorized state banks and trust companies to exchange mortgages held by them as fiduciaries for bonds of the Home Owners' Loan Corporation. State legislation is necessary in some jurisdictions to authorize borrowing from the Reconstruction Finance Corporation and other Federal agencies. If such authority is given, the right to pledge assets for the loans should be specifically included.

VII. USURY

Under Section 5197, United States Revised Statutes, what constitutes usury by a state bank constitutes, in general, usury by a national bank.

(CONTINUED ON PAGE 46)

VIII. BRANCHES

Section 23 of the Banking Act of 1933 continues the policy of making the branch banking privileges of national banks dependent upon the authority of state banks under state legislation.

IX. TRUST POWERS

Under Section 11(k) of the Federal Reserve Act, the trust powers of national banks are affected in various ways by state legislation.

(a) Such powers cannot be exercised in contravention of state law when a state-chartered corporation competing with a national bank is not authorized to exercise the particular fiduciary powers.

(b) The state law controls as to the deposit of "securities with the State authorities for the protection of private or court trusts."

(c) The bond required of an individual fiduciary is not required of national banks "if State corporations under similar circumstances are exempt from this requirement. National banks shall have power to execute such bond when so required by the laws of the State."

Single Interest of Trustee

Independent Legal Advice

Blue Sky Laws

Pledge by One Joint Depositor

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SINGLE INTEREST OF TRUSTEE

"A TRUSTEE has no right to act in the double capacity of broker or purchaser, to sell alleged securities at a profit to trust estates of which it is trustee, or to unload upon such trust estates worthless securities. These methods of plundering the estates of dead men cannot receive the approval and commendation of this court."

Kelsey v. Detroit Trust Co., 251 N.W. (Mich.) 555.

TRUST—INDEPENDENT LEGAL ADVICE

A New York decision indicates that for its own protection a corporate trustee should insist when a trust agreement is being prepared that the contact between the creator of the trust and his attorney be personal and direct. Supreme Court Justice Sheintag in Jothann v. Irving Trust Co., N. Y. Law Journal, March 16, 1934, said concerning the creator:

> "She did not have the benefit of independent counsel, devoted solely to her interests, in explaining the significance and the legal and practical effects of the instrument she signed. She was entitled to actual rather than absentee counsel and advice."

One result was that a provision limiting the liability of the corporate trustee was struck from the agreement.

NATIONAL BANKS—BLUE SKY LAWS

The Comptroller's opinion that a state cannot make its blue sky law apply to a national bank appears to be based on the ground that a national bank is created directly by Federal authority and that the interference by the state is too direct and material to be valid.

NATIONAL BANK—AGENT TO DEAL IN CORPORATE STOCK

The Comptroller of the Currency, in his last annual report, states that it is doubtful whether a national bank has authority to buy and sell corporate stock as an accommodation to its customers or to transmit orders, in connection with such stock, to stockbrokers. The report suggests that the law be amended so as to confer this right.

DEPOSIT INSURANCE—NEGOTIABLE CERTIFICATES—JOINT ACCOUNTS

Each negotiable certificate of deposit issued to the same depositor is "regarded as a separate depositor" by the Federal Deposit Insurance Corporation in ascertaining the amount of the assessment for the temporary fund. However, no one owner of such certificates can secure benefits of the insurance exceeding $2,500. This inequitable result of paying for protection not received can apparently be avoided by using nonnegotiable certificates.

The general counsel for the Corporation has ruled that when a person has an individual account and also a joint account with another, "each account will be insured to the extent of $2,500, such accounts not being owned in the same right or capacity by the same depositor."

PLEDGE BY ONE JOINT DEPOSITOR

Authority to either depositor to withdraw the funds of a joint deposit does not, of itself, include authority to pledge the account to the prejudice of the other owner. To take such a pledge without the written authority of both depositors is poor banking practice.

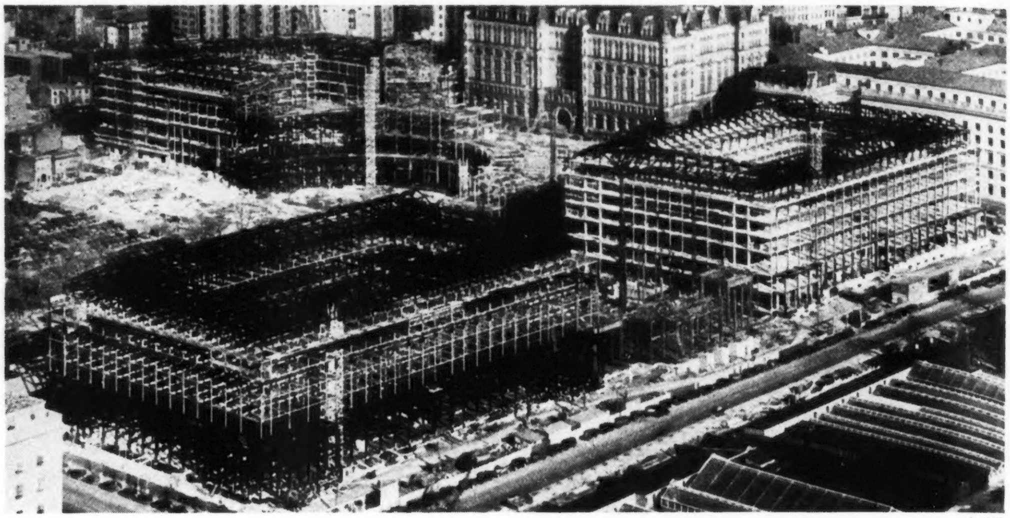
FORGED ENDORSEMENTS—IMPORTANT DECISION CHANGING LAW

The United States Circuit Court of Appeals (2nd circuit) in the case of United States v. Guaranty Trust Company of New York (not yet reported), held that the law of the place of transfer by endorsement of a negotiable instrument governs the title acquired thereby. Therefore the plaintiff could not recover from the defendant on its endorsement guaranteeing prior endorsements of a check drawn on the Treasurer of the United States payable to the order of a citizen of Yugoslavia, there transferred to a Yugoslavian bank without notice of the forgery and for a good consideration, and in due course transferred to the defendant, since such guaranty does not warrant the authenticity of the signature of the endorser, but is instead a warranty of title, and where the endorsements are sufficient to confer a good title as they were under the law of Yugoslavia, the guaranty is in accord with the actual situation, and there is no breach.

PENDING LEGISLATION

The Revenue Bill as it passed the Senate contained more favorable provisions with respect to the deduction of interest paid on bank deposits, where the deposits are used to purchase tax-exempt securities and with respect to the deduction of capital losses by banks and trust companies when there are no corresponding capital gains.

Effort is being made to prevent the stock exchange bill from subjecting banks to additional supervision and from discriminating against non-members of the Federal Reserve System.



L. & U.

BUILDING WASHINGTON

Washington, where the framework of new buildings has been in almost constant evidence for many months, represents America's spirit of constant growth, even in depression

Reconstruction

FOR the first time since 1920, the Annual Convention of the American Bankers Association will be held in Washington, October 22 to 25.

Bankers who recall the post-war convention of little more than a decade ago will find themselves in an amazingly changed city this fall, a change striking in its physical aspects but even more so from the viewpoint of national psychology.

In 1920, the demand was all but unanimous for the withdrawal of government from the field of private enterprise. The Muscle Shoals adventure was regarded as an object lesson in the follies of state socialism. The Red Menace was keeping many a staunch citizen awake of nights. The Plumb plan for the nationalization of the railroads was disapproved in a resolution adopted by the Convention, which also looked with misgivings upon proposals advanced by certain farm groups for Federal aid to stabilize agricultural prices at fantastic levels. Thrift was considered a laudable trait. Surcease from war extravagance in public outlay was being insisted on. Government banking was confined largely to the War Finance Corporation and the Federal land bank system, and there were misgivings concerning the wisdom of these undertakings.

Today, the pendulum has swung far to the opposite extreme. The Government has become the country's greatest banker. Investors in public utilities find themselves in hopeless competition with tax-free public ownership on a scale which dwarfs into insignificance the original Muscle Shoals venture. Lenin is no longer a specter, but has become eligible in the minds of thousands to whom his living words and deeds were anathema. Thrift and economy have become by-words in the minds of many Government officials. Inexperienced groups advocate the end of the profit-system and the nationalization of industry and agriculture.

For better or for worse, these changes have had a far-reaching effect upon the business of banking, and bankers from every part of the country are looking forward to the opportunity which the Convention will give them to meet at the national capital, where first-hand impressions may be gathered and where the best thinking of the whole banking fraternity can be brought to bear upon the immediate and future problems of their business. The largest attendance in years is anticipated, and a program is being arranged which will embrace every phase of banking in its broadest aspects.

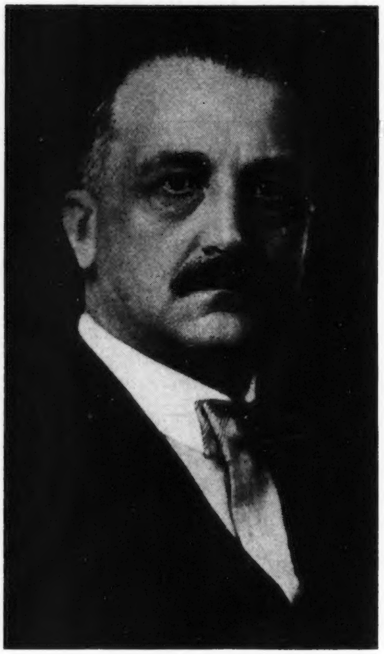
Bankers will find their national capital transformed.

The results of the quarter-billion public works program are evident from the moment one leaves the Union Station. Narrow, unsightly streets have been replaced by magnificent modern roads.

The new edifices for the use of the Post Office Department, the Department of Agriculture, the Department of Commerce and many others reflect every advance in efficiency and convenience, and are a long step in advance. The reflecting pool, the Botanic Garden, the Lincoln Memorial, the Arlington National Cemetery, the Folger Memorial and the new Supreme Court Building indicate the progress that has been made in making Washington a city of great beauty.

For months, the eyes of bankers have been focused on Washington, from greater or lesser distances, and the Annual Convention will afford a needed opportunity to study developments on the spot and to exchange ideas.

A. I. B.



A. P. Giannini, chairman of the board, Bank of America National Trust and Savings Association and founder of the A. P. Giannini Educational Endowment

WHILE the final touches to the program of the Annual Convention of the American Institute of Banking, to be held in Washington, June 11–14, still remain to be added, Charles F. Ellery, Chairman of the National Program Committee, announces that he has already arranged with Dr. Francis P. Gaines, president of Washington and Lee University, to speak before the first general session. O. Howard Wolfe, cashier of the Philadelphia National Bank, monetary authority and Institute alumnus, will address the final session.

The National Public Speaking Contest for the A. P. Giannini Educational Endowment will be held on Monday evening, while Tuesday afternoon will be devoted to the departmental conferences, with their splendid opportunities for amassing new and useful banking information, cementing old friendships and making valuable additional contacts. These conferences will delve into problems of audits and accounting, bank administration, business development and advertising, credits, deposit functions, investments and investment banking, savings banking and trust functions. These conferences will be resumed the following afternoon.

On Wednesday and Thursday mornings a series of Institute conferences will be held. Subjects will include chapter administration, debate, public education, the women's conference, public speaking and publicity.

The National Convention debate rounds out the Tuesday program. Two chapter teams which have won their way to national standing through a series of inter-chapter debates will participate in this event.

The program is so arranged that there will be opportunity to see many of the attractions of the national capital, and the Washington entertainment committee has provided for activities on a scale that indicates their determination to make every delegate's visit a memorable occasion. Four evenings of dancing in a variety of settings, a boat trip to Mt. Vernon with music, a trip to Glen Echo Park with a water carnival and dancing in the new Spanish garden, and a circus night with music by a nationally known radio orchestra by no means complete the list of plans designed to make this convention the most colorful, as well as constructively practical, in Institute history.

Executive Council Meeting

ON APRIL 16, 17 and 18, the Executive Council of the American Bankers Association held its annual meeting at the Arlington Hotel, Hot Springs National Park, Arkansas. Two hundred and seventy members were in attendance, headed by F. M. Law, president of the First National Bank of Houston, Texas, and President of the Association.

On Monday, April 16, meetings of the following Committees and Commissions were held to formulate and complete reports and recommendations:

Administrative Committee, Agricultural Commission, Bank Management Commission, Bankruptcy Committee, Commerce and Marine Commission, Economic Policy Commission, Federal Legislation Committee, Finance Committee, Insurance Committee, National Bank Division Executive Committee, Protective Committee, Public Education Commission, Savings Division Executive Committee, Special Committee on Section 5219 U. S. R. S., State Bank Division Executive Committee, State Legislation Committee, Tax Conference and the Trust Division Executive Committee.

On Tuesday and Wednesday the meetings of the Executive Council were held. Reports of the Administrative Committee were submitted by President Law, F. N. Shepherd, Executive Manager, and Hal Y. Lemon, Treasurer. Reports by the Presidents of Divisions and Sections were next submitted as follows:

American Institute of Banking Section, Albert S. Puelicher; National Bank Division, Irving W. Cook; Savings Division, Henry S. Kingman; State Bank Division, Clyde Hendrix; State Secretaries Section, J. W. Brislawn; Trust Division, H. O. Edmonds.

Reports of Commissions and Committees were presented by the chairmen as follows: Agricultural Commission, H. Lane Young; Bank Management Commission, Ronald Ransom; Bankruptcy Committee, M. R. Sturtevant; Commerce and Marine Commission, Fred I. Kent; Economic Policy Commission, Leonard P. Ayres; Finance Committee, Rudolf S. Hecht; Public Education Commission, J. H. Puelicher; Insurance Committee, W. F. Keyser; Membership Committee, Fred A. Irish; Protective Committee; Federal Legislation Committee, Robert V. Fleming; Special Committee on Section 5219 U. S. Revised Statutes, Charles P. Blinn, Jr.; Taxation Committee, Robertson Griswold, and State Legislation Committee, E. J. Bowman.

The meetings of the Membership Committee and the State Secretaries Section Board of Control were held on the 17th.

At the dinner on the evening of the 18th L. E. Birdzell, general counsel of the F.D.I.C., read the speech of Leo T. Crowley, chairman of the corporation, who was unable to attend the meeting.

The Condition of BANKING

(CONTINUED FROM PAGE 5)


FITZPATRICK IN THE ST. LOUIS POST-DISPATCH

season, but comparisons with recent months, duly weighted for seasonal and other changes, show a steady increase which is estimated to have brought department store sales to substantially the level of last August. This was the highest since February, 1932. As in February and March, the chief increases in sales and the movements of goods into consumption generally were in the South and Central West, again reflecting the distribution of Government funds to farmers and increased activities in industries depending upon the farmer trade.

CLOTHING TRADE

IN the New York district there was a tendency to slow up in retail lines and to speed up the wholesale trade. The retail trade, however, maintained a lead of about 18 per cent in dollar values over the corresponding period of last year. Business was exceptionally good in groceries and the food trade and in household supplies generally, but the chief movement was in wholesale lines for summer clothing, which reached a larger volume than at any time in the past four years. Such also was the case in the Philadelphia district where the best record in three years was registered. In the Boston district the record was not so good. Although dollar sales exceeded those of a year ago the volume of goods moved showed no increase and in some lines of woolen goods it was actually lower.

Summer goods and materials for summer clothing were the leaders in a continued advance in the Chicago district. The incidence of a new sales tax slowed up retail sales somewhat from the late March volume, which was unusually large in anticipation of the tax. In the Minneapolis district the post-Easter slump was slight and there was a marked advance in the off-take of household supplies and in such household repair lines as paints, hardware, furniture, refrigerators and electrical goods in which sales were the largest since 1930.

In the South the fine spurt in both retail and wholesale lines shown in the first three months of the year has continued. At Atlanta the demand for nearly all kinds of merchandise was the best in the post-Easter season since 1930, household supplies and wearing apparel leading as in most other districts. In the Dallas district dollar sales continue to lead over last year's record but at a considerably slower pace. In the St. Louis area a slow but steady improvement is reported, retail sales running about 28 per cent above those of a year ago. San Francisco gives a similar report. Cleveland reports a continuance of the upward movement which started with the resumption of automobile production upon its present scale. Sales in the Richmond district have been above last year in dollar value but the increase in volume has been slight.

In all these increases in trade, higher prices must be given special consideration. An increase of 28 or 30 per cent in the dollar turnover does not mean much when it is considered that the advance in the retail prices of many lines of goods ranges from 20 to 25 per cent. There is a further consideration—that much of this buying doubtless represents replacement of exhausted supplies, filling a void that has been growing for the past four years.

Industrial developments, as usual, have been dominated by the swelling output of the steel mills and automobile factories. According to various authorities and methods of calculation, the output of the mills during the month has been running at the rate of from 49 to 52 per cent of capacity. This volume has been an extension of the general trend of increase in the first quarter of the year and has also been due to mounting orders placed in anticipation of higher prices. The demand was the result not only of continued high automobile production but also included increased orders in structural steel, railway supplies and bars, sheets and plates. Bookings of some of the mills show an increase of 50 per cent over the average rate of the first quarter of the year. While doubtless much of this is in anticipation of higher prices, the prospects are that present activity will extend through May at least.

Automobile production during April is estimated at slightly above 400,000 cars, of which General Motors furnishes about 165,000 and Ford and Chrysler about 195,000 between them in about equal numbers. This compares with 386,637 in March. Truck manufacturers report a greatly increased demand for their machines, sales so far this year running about 150 per cent above those of the same period last year.

Textiles, on the whole, give only a fair account of themselves. In New England, woolens were off and cotton mills show a slight decrease in output. In the central Atlantic and southern states the record was better. The general opinion seems to be that cotton textiles will lag for a time, partly because of large stocks built up in recent months. What increases were noted in the latter part of March and in April were in industrial fabrics such as those used in tires.

While the steel mills have orders which will keep them on the current level of production for several weeks, there is considerable misgiving over price advances announced as effective in the closing days of April, and a reaction is looked for by some authorities in June.

General business improvement naturally has affected banking, although its chief effect seems to be to emphasize conditions of recent months rather than lead to any new course in banking developments. Better retail and wholesale trade in consumers' goods have resulted in increased turnover of funds, the velocity of deposits being estimated at from three to five per cent above that of March and running from 23 to 25 per cent above the same months a year ago, making due allowance for the banking holiday.

Recently

(CONTINUED FROM PAGE 9)

certain that it cannot be solved by emergency measures. The best that can now be hoped for is a gradual liquidation of the schemes already undertaken and a gradual building up of a better market for the farmer by improving conditions in other activities. It will be a long pull but there is no other way out of it.

FACTS of the present situation can no longer be dodged; nor should they be. There has been enough of experimenting and it is time there was an end to it. The United States is demonstrating daily its power of recovery. If the American people can get rid of some of their idle dreams of a sudden return to boom times, if they will discard such fetishes as price levels, monetary manipulation, inflation, planned economy, production restrictions and other untried methods of recovery and accept facts as they are and not as ballyhoo has represented them to be, they will soon get somewhere and the future can be faced with absolute confidence.

*

Capital

On an average the R.F.C. owns 31 per cent of the capital structure of the 100 largest banks in the United States; its proportion of the capital of the first 20 banks is even larger. As a demonstration that the sale of preferred stock to Mr. Jesse Jones' corporation is not an indication of weakness this is unimpeachable, but as a demonstration of profit earning possibilities it is not quite so convincing.

*

Gold

It has been difficult to follow the ramifications of the Treasury's gold transactions in recent weeks. It seems that some of the gold arriving from Europe or otherwise turned over to Mr. Morgenthau's strong box has not been covered by paying out certificates which would be turned into the Reserve banks and ultimately increase the already balloon-like excess reserves. Instead, it has been held in the Treasury to increase the latter's own reserves, which had been running rather low previous to the European windfall. In the meanwhile the Treasury has drawn upon its depositories for needed cash. There is no reason why this should not be done; there are good reasons, in fact, why it should be done, since further increase in member bank excess reserves is likely to be disturbing. It may be relied upon that under present conditions the gold transactions of the Government are sound.

*

Loss

Chairman Jesse Jones of the R.F.C. estimated before a Senate Committee that if the provisions of the McLeod bill providing for the immediate payment of depositors in closed national and Federal Reserve member banks were extended to all banks, the resulting loss to the Government would be around $2,500,000,000. This is the first official estimate of the loss on assets in the closed banks so far published. That depositors in banks have been able to bear this loss and build up bank deposits to their present level indicates considerable strength somewhere.

*

Labor

In the opinion of President Green of the American Federation of Labor the "scene of the conflict" between labor and its employers "has been transferred from the strike field to the council room" and that seems to sum up the opinion of both sides to current controversies. There is also general agreement to the substance of the statement from the White House following the adjustment of the principal automobile union dispute that "in the settlement there is a framework for a new structure of industrial relations, a new basis of understanding between employers and employees." However, the collective bargaining clause of N.I.R.A. leaves plenty of room for further differences of opinion, the Wagner bill to interpret that clause rather adds to than subtracts from its possibilities of trouble breeding, while pending shorter hours and increased pay legislation open up an unlimited field for discord. It will require a lot of patience and good sense on the part of all concerned to keep the wheels of industry turning.

CORRECTION

In March the JOURNAL reproduced a chart captioned, in error, "Forecast by the Cleveland Trust Bulletin". The forecast was not by the *Bulletin* but was based directly on Government statistics.

CAMPAIGN IN EARLY STAGES—PREVIEW

Congressmen are hoping soon to return home in anticipation of fall elections. Senator Robert R. Reynolds, left, and Representative Jennings Randolph are among those making preparations

U. & U.

U. & U.

Conservation of Life Insurance Estates

Repay Loans—Keep the Policy in Force

ONE question very frequently presented to bankers is, "Should I cash in my life insurance policies upon which I have substantial loans?"

Since a very large share of the amount of insurance surrendered has followed more or less directly the making of a loan—the act of borrowing is generally regarded as the first step toward cancelation of the insurance itself. Careful study and intelligent advice upon this question, therefore, becomes exceedingly important, unless many billions more of continuing insurance protection are to be forfeited on the false premise, frequently urged by the insurance "twister," that the annual cost of new insurance is less than the present cost of old insurance plus interest on the loan. True, the appearance of a high cost for the old insurance is magnified by the usual presentation of bills for premium and interest together, whereas the loan interest should be segregated the same as would be the case if it were money due for interest on a bank loan or on a mortgage.

The owner of mortgaged property does not think of selling as a means of liquidating the indebtedness, yet the mortgaged life insurance and the mortgaged home are fundamentally of the same character in that both represent a loan against an important and substantial asset, but with the following distinctions:

1. A somewhat similar scale of annual costs (premium in the case of life insurance and real estate taxes in the case of the home) which adds a definitely measurable sum to the cash equity of life insurance—nothing to the real estate value or equity.

2. This annual cost represents the entire cost of a life insurance policy, say of $10,000, whereas a $10,000 home involves a cash outlay or an equivalent of its full value in addition to the annual taxes.

3. Broadly speaking, the market value of both has a reasonably close relation to the total cost, closer in the case of life insurance because the annual cost of insurance is the only cost.

4. Though marketability of the insurance policy is guaranteed at all times for stated values, no property has this attribute.

5. And finally, the mortgage holder may compel payment in full of the amount of mortgage, but the terms for repayment of a life insurance loan rest entirely with the borrower.

There is no valid reason for treating an insurance loan differently than any other kind of loan, and the advantages of retaining all benefits of a policy on which a loan exists should be very carefully studied before deciding upon "cashing in" or replacement. There are very few cases where such a change is justified, and it is safe to say that an adequate understanding of all the factors in such an instance can be best and fully understood if an experienced insurance agent is called in, preferably from the company holding the present insurance.

Banks have cooperated during the depression in scores of ways in the conservation of their customers' life insurance. One example from the files of an eastern institution is typical.

This bank had a customer to whom it had extended a collateral loan of approximately $5,000. The current market value of this collateral had shrunk, in the depths of the depression, to $1,000 in excess of the loan. The earning power of the customer was depleted by about 60 per cent. His insurance in the sum of $50,000 had also been borrowed against, and there was no longer income sufficient to meet the demands both of the insurance company and the reduction of the bank's note.

On learning of the customer's dilemma, the bank immediately worked out a plan whereby the repayment of its own loan was amortized over a longer period, and the insurance kept in force.

Such acts have an important effect upon the future of individuals in every part of the country and indicate the value which bankers place upon life insurance as a social and financial force.

It was stated recently by the president of a life insurance company that "Unquestionably many loans are made and many policies surrendered for reasons which have no relation to the best interests of the insured. Many times the 'twister' is probably responsible, to the actual detriment of the insured. . . . But in the times through which we have been passing, opportunity has been given to life insurance as an institution, through the cash loans and surrender values it has disbursed to its policyholders, not only to relieve the exigencies of individuals, but to serve in a very wide way the people throughout the nation."

After making an extensive study of loans to policyholders the president of another company was quoted very early in the depression as saying "that except in the case of those of very meagre estates, borrowing upon the policy was an unnecessary act, and that other funds could have been utilized for the purpose." He stated also that "repayment does not occur except in an exceedingly small number of cases." This presumably related to normal times when such loans by all companies averaged $379,000,000 annually. These loans divert from their intended protective purpose large volumes of life insurance—which seems the really serious aspect of the question of policy loans.

An important and ideal preliminary step in the conservation of life insurance estates would be the continuous and persistent discouragement of loans on policies unless some plan or pressure for repayment on a regular basis is made at the same time, as in the case of any other type of loan.

An Unreliable Bank

(CONTINUED FROM PAGE 29)

even with the officers of other banks; whether it is eligible for rediscount at the Reserve and, if not, whether it could be used as the basis for a loan from the R.F.C. in case of an emergency; whether it will be approved by the national bank examiner or the state bank examiner and, finally, the Federal Deposit Insurance Corporation's examiner.

Investments can be made only with due regard for the limitations in the banking act, state laws, the approval of the Comptroller of the Currency or the state superintendent, the insurance corporation and, in many cases, the R.F.C. The matter of the bank's liquidity is to be daily balanced between the demands for substantial liquidity on the part of the Federal Reserve authorities on the one hand and the disposition of the R.F.C. to force increased industrial and commercial loans on the other. It is a confusing situation into which the Treasury may dip its fingers at any time in the exercise of its money authority.

OBJECT, SALUTARY

ALL this, naturally, is regulation running into regimentation. Under present conditions most of it may be necessary; most of it certainly is salutary in object if not in method. But from the practical banking standpoint the complexity of these regulations is both confusing and restraining. Few bankers can now know exactly where they stand with respect either to the law or to the various supervisory and control agencies. Most of them find it difficult to ascertain their actual position even in carrying out the direct mandates of the law with respect to past activities or in the liquidation of outstanding relationships, much less those with respect to future operations. Few, indeed, are willing to undertake new enterprises or adopt new and progressive policies under such conditions.

Out of the maze of laws and regulations now governing banks are emerging certain facts or, at least, certain tendencies. The most significant is an increasing unification or centralization of all these various Federal regulatory authorities. It is not mere coincidence that condition statements are now required of all banks on the same dates

Substitute for Management

and in substantially the same terms; that rates of interest on deposits are now uniform in all banks covered by the Federal Reserve System and the insurance corporation; or that the requirements of the various examining authorities now include trust and other items heretofore required of some of the banks only.

Reasonable and proper regulation of banking is necessary now and probably always will be, yet it is evident that a banker can follow all the rules which now or later may hedge him about and still make mistakes. No amount of laws, rules, regulations and regimentation can make a good banker or take away from a banker the final responsibility for what he does or fails to do. The final test of the successful operation of a bank under present conditions is, and in the future will be, just what it has always been—good bank management. This cannot be assured by law and there are abundant indications that present overelaboration of bank control is throttling at its inception that independent, responsible good management of banks upon which safe and sound banking in the future ultimately will depend.

George E. Anderson

He Seems To Be Getting More Good Advice Than Bad

RAY IN THE KANSAS CITY STAR

Municipal Credit

(CONTINUED FROM PAGE 42)

maintained. It was found that by a slight increase in the tax rate the budget could be balanced on this basis. Bankers agreed to finance the city under these conditions.

One of the vitally important phases in the new program was to sell it to the taxpayers. No taxpayer wants to see an increase in the tax rate at any time, particularly in a depression. But if at the same time, he can see that waste is being eliminated from the city administration and that the city's finances are at last being put on a sound basis, he will cooperate. And that is proving to be the case in Boonville. Newspapers aided by telling the story intelligently, citizen groups were consulted and speakers relayed the information to the public over the radio, with the result that taxpayers who can pay are apparently doing so, and it appears today as if the city would work out of its difficulties. A miracle may have occurred—if so, as with most such miracles, it was the result of cooperation.

That is an illustration of saving the drowning. Emergency tactics are never pleasant. But they can be effective if all concerned (including the patient after he becomes conscious) work together to attain the result desired.

Far better is it to anticipate the problem by preventing its occurrence. Take a slightly larger city, Cincinnati, Ohio, which learned to swim before it fell into the water. Cincinnati in 1924 had a corrupt, inefficient, municipal government that was known as one of the worst administrations in the country. Cincinnati adopted the city manager plan with all that this implies —systematic control of expenditures

ACME

"Police protection, fire protection, the maintenance of streets and sewers, schools and libraries, public health work, recreation—all these services are reflected directly in property values in the community . . ."

•

through an intelligently administered executive budget system, centralized purchasing, financial planning, over a period of years, of capital expenditures as well as current expenditures and the establishment of up-to-the-minute business methods in all departments of the government. Cincinnati went through the boom period and spent money on public works as did all cities. But the administration indulged in none of the unsound or vicious administrative practices that led city after city to awake after 1929 and find itself in a financial mire from which there was no escape. On the contrary, Cincinnati ended the year 1933 with excellent credit, having collected more than 95 per cent of its taxes currently, and with several millions of surplus cash on hand.

Cincinnati does not stand alone. There are enough exceptions to the rule so that it is possible to hope the exception may become the rule. Of several hundred cities, at least, it may be said that intelligent advance financial planning combined with efficient administration has enabled them to weather the storm of depression without having to reach for a bucket and bail out.

Sound municipal credit depends, to a greater degree than has heretofore been appreciated, upon intelligent and efficient administration of local government. The more this is realized by those responsible for financing the activities of local government, be they bankers or taxpayers, the sooner are we likely to achieve the goal of developing our local governments into effective agencies for human welfare and sound investment.

Economic Delusions (I)

By E. C. HARWOOD

Professor Harwood is a member of the faculty at Massachusetts Institute of Technology

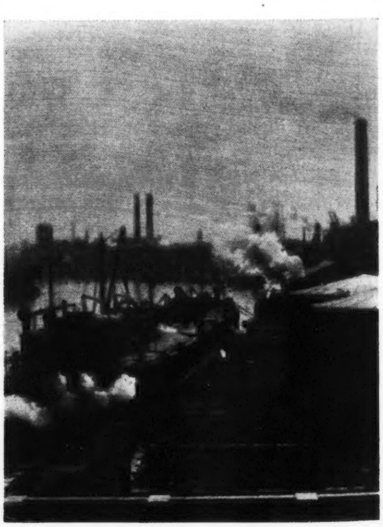
ONE of the most interesting features of the present depression is the pertinacity which the public has displayed in clinging to various economic fallacies. These mass delusions concerning elementary economic relationships retard the dissemination of sound knowledge and in so doing postpone the action which can assist recovery.

* * *

PERHAPS the most important of the current delusions, the one which has resulted in the most spectacular attempts to remedy imagined wrongs, is the belief that prices in general have fallen to unduly low levels. In some of the most widely known price indices, the base period chosen in computing price relationships for successive years is 1926; therefore the price level at that particular time is given the index number 100. With reference to that base, prices are slightly over 70 today.

The fact that the base period selected was given the index number 100 has led many individuals to believe that there was some particular reason for that action, and that the 100 index number is actually some kind of a normal price level. Therefore, it is hardly surprising that the fall in prices to 70, and even lower for a time, has aroused those whom it damaged to clamor for a price raising policy. By examination of the facts in the case it should be possible to see whether or not this index number of 100 has any virtue as being normal.

The Index of Wholesale Commodity Prices prepared by the United States Bureau of Labor, with 1926 its base year, has been carried back nearly 200 years by Professors George F. Warren and Frank A. Pearson of Cornell University. Unfortunately, the small number of articles included and the inadequate records available during the early portion of this period make it probable that the early years of their index are not representative. But the record of the past 100 years is reasonably accurate, and should provide a long enough period for the desired test. Careful examination of the record from 1830 to date shows that the price level which existed in 1926 has been equalled or exceeded during only 13 years of the



past 100. This suggests that the base period selected is hardly a normal one.

Still another test which may be made is to compute the index number for the average price level during the past 100 years. This is found to be 74.3. A variation so marked from the base period selected suggests that the year 1926 saw prices near their extremes of the upward range.

It is clear from other facts and computations that the present level of the United States Bureau of Labor price index is 12 per cent higher than the average price level for the past 100 years, if periods of war-time inflation be left out of consideration. Even if these years be included in the computed average, the present price level is only 5 per cent below the average for 100 years. These facts suggest that if a stable price level is desired, there is far more possibility of it in the vicinity of present prices than those of 1926.

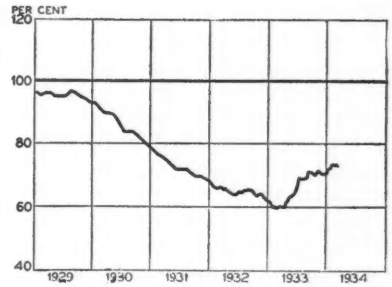
(II) The Supply of Gold

THE second of the popular economic delusions which seem to be blocking rational consideration of current problems is the frequently expressed opinion that we are suffering from a shortage of gold. Many people who have seen statistical data portraying the actual production of gold during the past few years have jumped to this conclusion.

In order to understand the actual course of events, it is necessary to consider the viewpoint of the gold producer. Like any other individual in business, he operates in order to make a profit. His costs are largely dependent upon the wholesale commodity price level.

It is easily proved that the explanation for a declining gold production from 1915 to 1923 and for its subsequent failure to recover to pre-war levels until the past two years is to be found in the inflated price level of that period. Since 1929, prices in general have fallen, and during 1932 and 1933 they have been at or slightly below pre-war levels. The result has been greatly to increase the profitability of producing gold and to make it possible for many marginal mines to resume operations. Today world gold production is well above the highest levels ever seen and is still increasing. Obviously, the declining

Wholesale price index of the United States Bureau of Labor Statistics (1926=100). From the Monthly Review, Second Federal Reserve District



gold production prior to 1929 was not the result of a worldwide shortage of the yellow metal or a failure to discover new gold fields. Now that the price maladjustments of that period have been ended, gold production has resumed its progressive upward trend without the assistance of new discoveries on any large scale. As a matter of fact, the magnitude of existing ore reserves makes fears of any shortage in the near future ridiculous. There is not now and has not been a shortage of gold production with respect to any reasonable level of prices.

(III) Production

THE third common delusion, which appears again and again in the writings of our pseudo-economists, is to the effect that there was general overproduction during the period which ended in 1929; that we have so much productive capacity that it is possible to produce more than people can reasonably desire. The public's misconception of the facts in the case has been encouraged by Administration leaders in high places, such as Professor A. A. Berle, Jr., who said last December:

". . . we can arrange things, as organization proceeds, so that everybody gets his share. If such a method of distribution were arranged, and it was carefully and thoroughly done, and industry maintained its efficiency, pretty much every one in the United States would have, in terms of goods and of services, an income equivalent to somewhere in the vicinity of $5,000 a year—or rather, equivalent to what $5,000 a year income will buy now."

That this statement is quite fantastic and gives one an entirely erroneous conception of the facts in the case can be shown by a simple computation. If the 80,000,000 adults in this country be considered the "pretty much every one" mentioned by Professor Berle, it is plain that a $5,000 a year income for each would require production to the value of $400,000,000,000. At 1929 prices this would be approximately $650,000,000,000—but in that year of boom prosperity, when production in this country reached the highest levels ever recorded, the total value of production for the year was in the neighborhood of only $80,000,000,000. That present productive capacity could suddenly be multiplied eight times over is nothing less than an idle dream.

Another viewpoint which may be considered in connection with this possibility of overproduction is our lack of capacity to produce those goods which are known to be desired and would be bought when normal purchasing power returns.

The desire for increased quality, which always accompanies a rise in anyone's standard of living, must also be taken into account.

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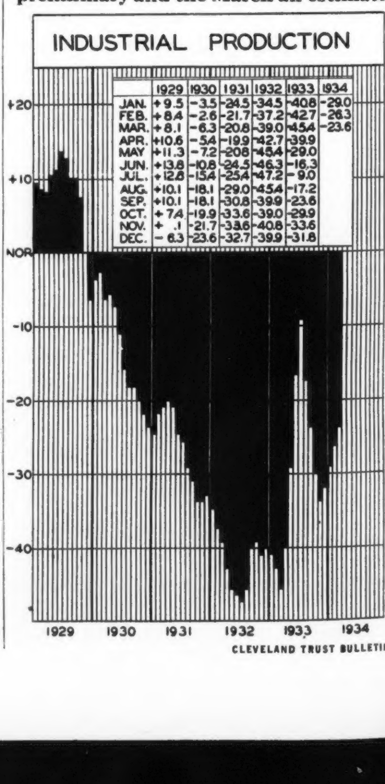
Monthly changes in the volume of industrial production, based on Federal Reserve data. The February figure is preliminary and the March an estimate



	1929	1930	1931	1932	1933	1934
JAN.	+ 9.5	− 3.5	−24.5	−34.5	−40.8	−29.0
FEB.	+ 8.4	− 2.6	−21.7	−37.2	−42.7	−26.3
MAR.	+ 8.1	− 6.3	−20.8	−39.0	−45.4	−23.6
APR.	+10.6	− 5.4	−19.9	−42.7	−39.9	
MAY	+11.3	− 7.2	−20.8	−45.4	−29.0	
JUN.	+13.8	−10.8	−24.5	−46.3	−16.3	
JUL.	+12.8	−15.4	−25.4	−47.2	− 9.0	
AUG.	+10.1	−18.1	−29.0	−45.4	−17.2	
SEP.	+10.1	−18.1	−30.8	−39.9	−23.6	
OCT.	+ 7.4	−19.9	−33.6	−39.0	−29.9	
NOV.	+ .1	−21.7	−33.6	−40.8	−33.6	
DEC.	− 6.3	−23.6	−32.7	−39.9	−31.8	

CLEVELAND TRUST BULLETIN

(IV) "Buy Now"

THE fourth economic fallacy, which has been directly responsible for action tending to prolong the depression, is found in the general belief that savings are a subtraction from the total of consumer purchases. This understanding of the question has been voiced by people in high places, for example, General Johnson, who asserted in one of his speeches that ". . . it is no time to save." The "buy now" campaigns have their origin in these mistaken conceptions.

In order to discover the error in reasoning involved it is only necessary to trace the actual purchasing power in a specific simple example. When a manufacturing concern ships goods to jobbers or wholesalers, it is customary to obtain, from the bank, credits approximately the same in amount as the value of the goods which have been shipped. Sometimes these credits are secured by the manufacturer's note, or the credit may be originated in other ways. By whatever detailed process it may occur, the manufacturer has made available to him circulating bank credit in the form of a demand deposit, or checking account.

THE CASE OF JOHN JONES

WHEN the manufacturer pays wages, he is giving to each laborer a portion of this demand deposit or credit which has been originated by the banking system to represent goods produced. If John Jones, one of the workers involved, receives a $25 check, he may decide to save some portion of his income. Let it be supposed that he takes the check to his bank and requests that $5 of the amount be credited to his savings account. The remainder is placed in his checking account or taken out in cash. The savings account of John Jones will be credited with the $5 which he has deposited and this amount of actual purchasing power will then be in the hands of the bank for some investment purpose. In the normal course of events, the bank will either buy part of a new bond issue or loan to a prospective home builder the savings at its disposal. If the $5 which John Jones asks the banking system to invest for him is loaned on the security of a first mortgage to someone building a house, the actual $5 of purchasing power will thereby find its way into the hands of one of the workmen on this new residence that is being constructed. Of course, this workman will use his pay for the purchase of various consumable goods, with the result that the $5 saved by John Jones is actually spent for consumption goods by someone else. Therefore, saving is not a withdrawal of purchasing power from the consumer market but a transfer of it to some other individual or business which does use it in the market for consumption goods.

Following through the example just discussed, it is clear that savings do not restrict consumption and curtail employment, but actually may increase the opportunities for the unemployed. As Colonel Ayres has shown, approximately one half the unemployed today are out of work because new capital is not being created. Increased savings would provide the wherewithal to reemploy these individuals in the construction of new homes, modern equipment for the railroads and new plants for various industries which could be started if capital funds were available. Therefore, new savings can actually increase employment.

Obligations of Long Maturity

THANKS to a little business dislodged by inflation talk, Mr. Heemskirk possessed $1,000 more than he had expected to have at this particular time and planned to invest the windfall as he had long ago made up his mind to do—in a trust fund for his little nephew, Jackie. He decided to pay a visit to his broker, J. Ludington McClatchy, and enlist his aid in choosing a suitable investment which could be made the vehicle for the trust fund he planned.

Mr. Heemskirk told Mr. McClatchy about the Jackie problem. "I want something—a bond, I guess, which will pay its interest regularly after I am gone, after Jackie is gone, to his children after he is—." He halted, conscious of sounding lugubrious. He hated people who were lugubrious.

"I know," murmured Mr. McClatchy with comprehension, "you mean after we are all gone. Well, the maturity would have to be distant."

"Very long," agreed Mr. Heemskirk. "And with a very safe coupon."

Mr. McClatchy raised his eyebrows. "You mean principal, don't you?"

"No," said Mr. Heemskirk firmly. "Who cares now whether the principal is paid a hundred years hence if the income, which is what I am interested in, is paid regularly?"

"Why not buy a United States bond?" said the broker.

"No; the dollar may be devalued again and, besides, the gold clause has been defaulted," said Mr. Heemskirk. "Too much worry about what they might do next."

"You could get a French bond, which still pays in gold," suggested Mr. McClatchy.

"That's out, too," answered Mr. Heemskirk. "The French pay gold only to be cussed, because other countries don't. The French are like women, contrary. If other countries come back to gold the French will pay something else. Besides, it's a bother every time you cash a coupon to get different value. Suppose Jackie collected one coupon at $20, the next at $25, one at $30 and then, perhaps, the next one dropped to $20 again. Demoralizing.

"Haven't you any long term rails, say a good legal?"

"The illegals are sometimes better," opined Mr. McClatchy. "How's a hundred-year maturity?"

Mr. Heemskirk cogitated. Even a hundred years might be brief—only two or three generations. He wanted that trust fund to run for a long time

and to go a long way. "Better make it longer," he said.

Mr. McClatchy looked at his client doubtfully. "How do you know there'll be a railroad then? Still, if you have to have it, I can sell you a West Shore Railroad bond bearing 4 per cent and due in the year 2361. But, man, you're taking a chance. How do you know there'll be a West Shore Railroad 427 years from now? We may all be wearing detachable wings then."

"How do you know, for that matter, whether there will be any dollars?" parried Mr. Heemskirk.

"I don't," answered Mr. McClatchy.

Mr. Heemskirk smiled. The more he thought it over the more he liked that West Shore bond. Who cared about 427 years hence? Even inflated asterisks probably would be legal tender. And, if wings became common, he assumed comfortably, the West Shore Railroad doubtless would get itself some and carry on, keeping up with the times like the Wandering Jew He turned to the broker. "I'll take it," he said, "the West Shore one."

Mr. McClatchy picked up one of the numerous telephones. "Buy one West Shore 4 at market," he said laconically. A few moments later the report came back. "It's bought," said the broker, "at 82. Cost you $820." Mr. Heemskirk asked why it was so cheap. Mr. McClatchy grinned. "That," he said, "is because many persons are a little uncertain how it will be paid 427 years from now."

On his way home Mr. Heemskirk amused himself figuring how much income at $40 yearly the bond would yield over several generations and startled himself by discovering that the aggregate interest on the bond in 427 years would be $17,080. Just for fun he tried to plot out statistics of Jackie's descendants, calculating roughly the family average of 3 children and allowing generously 50 years to a generation, and was horrified to find that Jackie would have 19,683 descendants. Naturally the $40 yearly, or even the $1,000 at maturity, divided among such a crowd, would be stretched thin. Mr. Heemskirk felt oddly baffled by considerations of time, space and fecundity. For a moment he was tempted to unload the 427 year bond on the New York Community Trust, which would know just how to cope with such a problem. He reconsidered, and decided to abandon the generation-to-generation trust fund scheme. It was too complicated. He would give the bond outright to Jackie when he came of age and until then let the coupons endow his education. The bond would still have 412 years to run.

Mr. Heemskirk sighed relievedly and brought his attention back to less abstract things. He saw by the papers that a New York City bond issue was maturing again and that there was some doubt as to how it would be met.

FET

Customer

Employee Meetings

To the JOURNAL:

WITH insured deposits, regulated interest rates and the prospect of local banking codes, the operating officers of our banks may well give serious consideration to the development of their employees.

With service as a major product, it is vitally important that our employees fully understand both their obligations to the public and those of the public to our banks, that the spirit of confidence may be revived and banking retain its position of leadership in the community.

I know of no better plan by which to train these groups than to follow the program of Constructive Customer Relations as sponsored by the Public Relations Committee of the American Bankers Association. Under the leadership of an officer, in weekly employees' meetings, the various subjects as outlined should be studied and thoroughly analyzed. In these meetings, certain operating problems may very properly be discussed and a more thorough knowledge of the various departments of our banks be gained.

In other words, I would suggest a slogan, "Know Your Bank," and train your employees along this line. We cannot expect our people to sell our banks to the public on the proper basis unless their operations and functions are well known to each of them.

At the First National Bank and Trust Company of Springfield, Ohio, our experience has been most satisfactory. Our employees have shown an unusual interest and, no doubt, have all profited by the meetings we have held.

We are happy to recommend this program.

V. C. LEFEVRE
Vice-President and Cashier
First National Bank and Trust Company
Springfield, Ohio

Clear Endorsements

To the JOURNAL:

COULD you suggest to bankers, through the JOURNAL, that they should not cover any previous endorsements with their own endorsements on the backs of checks?

We receive checks from our customers that they have received from their patrons, and which these patrons have in turn received from someone else. Such patrons and our customers usually endorse these checks simply by writing their names on the back, and we endorse them with our rubber stamp and deposit them with our bank for collection and credit.

Many of these checks are returned to us unpaid for various reasons, and in trying to ascertain by the endorsements from whom we have received them we very often find that it is quite impossible, because of the careless manner of the various banks that handled them in placing their endorsements over previous ones.

No doubt many other commercial institutions besides ourselves would appreciate more care on the banks' part in stamping their endorsements.

W. F. GINTZ
Vice-President and General Manager
Nacogdoches Grocery Company
Nacogdoches, Texas

Relations

Bank Advertising

To the JOURNAL:

A NEW day is at hand in bank advertising. From now on there is to be a new emphasis. Today not so much stress needs to be placed on safety. With deposit insurance absolutely safeguarding deposits up to $2,500, safety is taken for granted by most of the public. More is to be said about a bank's efficient and courteous service, its experience and all of its facilities.

Good bank advertising this year will feature the institution's distinctive qualities; it will solicit deposits to prepare for business recovery; it will seek loans discreetly to increase profits and to help local business; and it will educate the public as to the new Code, and about banking and trust functions generally.

Advertising increases in value from year to year as it continues. It is cumulative in its effect, and it loses some of its value when it is interrupted. The non-advertising bank has one kind of inertia—the kind that tends to make a body at rest remain so; the advertising bank has the other kind—the kind that tends to keep things in motion when once started. It would be difficult to estimate the full value of strong, persistent advertising conducted through a period of years. The momentum of such a campaign is irresistible.

T. D. MACGREGOR

Cashing Relief Workers' Checks

BANKERS who have been cooperating in the cashing of relief work checks will be interested to know how this matter is being handled in New York City, under a new arrangement whereby payments are being made direct by the city at the present time.

Drafts are issued by the Comptroller of the City of New York, payable at any one of three specified banks, bearing the signature of one of six delegated officials. Facsimiles of these signatures, together with a specimen check, have been supplied to all New York banks. Unless presented for payment in 30 days, they are voided.

To protect the three paying banks against congestion and confusion, each worker receives at the time he is given the check, a notice worded as follows:

> You are now being paid by the City of New York. All banks have promised to cooperate in cashing your checks. It is not necessary to cash this check at one of the banks named thereon. Please help to avoid congestion at bank tellers' windows and take checks home for cashing at your neighborhood banks and stores. If possible use them for paying rent and other bills.
>
> Treat checks as you would cash. If they are lost and cashed by someone else you must stand the loss.

Each worker is supplied with an official indentification card, and told that he must exhibit it when cashing his checks.

It is believed that the measures outlined above will facilitate the work of banks in their cooperation with the public authorities and avoid the confusion which was an inevitable part of the original plan for clearing these checks.

New England Bank Income and Expense, 1933

THE Federal Reserve Bank of Boston has recently compiled an interesting analysis of the operating costs of 217 member banks outside of Boston for 1933, which affords bankers in other sections an opportunity for examination and comparison.

During this period deposits were at their lowest average in ten years. Short term interest rates were also at the lowest levels that have been recorded.

Despite these conditions, operating costs were kept so well in hand that the percentage of total current income remaining for net current earnings was the highest since 1929. Total interest received by 217 reporting banks was 94.2 per cent of current income, compared with 96.2 per cent in 1928. Other current income was 5.2 per cent, compared with 3.0 per cent in 1928, while net income from bank buildings was 0.6 per cent as against 0.8 per cent in 1928.

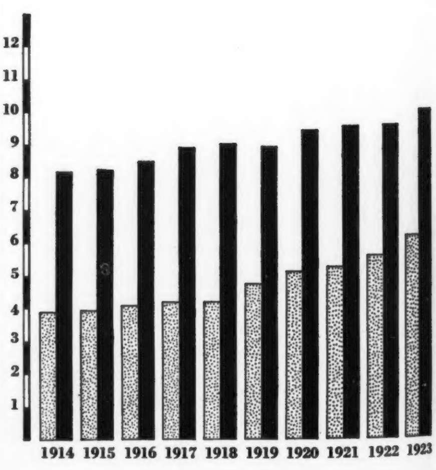
Interest paid was 29.8 per cent, compared with 39.6 five years ago, reflecting the elimination of interest payments on demand accounts. Salaries and wages show an increase from 19.6 per cent in 1928 to 26.4 per cent in 1933, this being a reflection of the reduction in total current income despite decreases in actual dollar outlay.

Net non-current deductions and charge-offs were 22.0 per cent. While this shows a marked improvement in comparison with 1932 and 1931, it is 350 per cent higher than the percentage figure for 1930, which, in turn, was 60 times greater than the 0.1 per cent shown in 1928.

Net profits were 2.7 per cent, compared with deficits in the two preceding years and 22.3 in 1928. Dividends averaged 4.6 per cent compared with 12.3 in 1928.

The improvement in net earnings was most marked in banks having a minimum of time deposits.

The percentage of net earnings to total available funds was 1.1 per cent, a figure which has been maintained without important change for six years, while net profits available for dividends after allowing for losses on loans and investments are 0.1 per cent, compared with a loss of 0.2 per cent in each of the two previous years. Those banks which do a purely commercial business made the best showing, while progressive declines are in evidence as the proportion of time deposits increases.



Mutual Savings Banking

BECAUSE of the widespread interest in the organization and operation of mutual savings banks, the JOURNAL summarizes below an address on the subject recently delivered by Philip A. Benson, president of the Dime Savings Bank, Brooklyn, New York.

The mutual savings bank idea originated in Scotland in 1810 in the mind of Dr. Henry Duncan, who sensed the workingman's need for some safe place where his savings could be deposited. By 1816, the idea had reached America and found expression in the creation of three mutual savings banks, all of which are prosperous institutions today. Eighteen states in the Union now have 567 banks of this type.

A mutual savings bank is started by contributions to a guaranty fund. These contributions are made by the incorporators. There is usually an additional fund called an expense fund. These funds bear all losses and expenses until the bank is on an earning basis. The incorporators are entitled to interest payments at the same rates paid ordinary depositors. The fund must be left with the institution until a sufficient amount of earned surplus has been obtained. Until a bank has a surplus amounting to 10 per cent of its deposits, it is required to set aside 10 per cent of its earnings and add it to the guaranty fund. It can then add to the surplus until it reaches 25 per cent, after which distribution must be made to depositors. In the meantime, to attract deposits, it must of course pay dividends to depositors.

The problem of the mutual savings bank is to invest its money so as to pay all running expenses and taxes, interest to depositors and to add to its surplus. This problem is complicated by the fact that savings deposits are usually considered to be payable on demand, despite laws permitting a 60-day notice before withdrawals may be made. This makes a certain amount of liquidity necessary, the retention of a certain amount of cash in the vaults and fairly large deposits in other local banks. A large part of resources are also invested in U. S. Government bonds, which, despite low yields, are immediately salable and always available for loans whenever occasion arises. Other sums are invested in carefully selected bonds and real estate mortgages.

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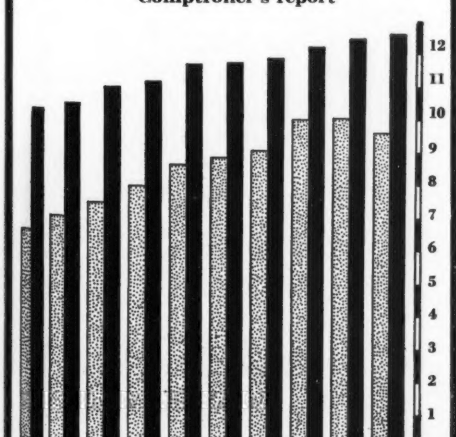
Deposits (black) in billions and depositors (dotted) in millions in mutual savings banks, 1914–1933, from the Comptroller's report



Public Opinion Behind the New Deal

AMERICAN banking is back of President Roosevelt's program, according to D. W. Hogan, president of the City National Bank and Trust Company of Oklahoma City, addressing a group of bankers at Lawton, Oklahoma.

His speech was widely quoted. He urged bankers to undertake more aggressively the duties of leadership in their communities and made a clear statement of the cooperative spirit with which bankers are approaching the problems of government and the New Deal. After summarizing the work of the Administration, he said:

"As I see the national situation, we are making progress. When President Roosevelt took charge of affairs at Washington, he at once called out some of the ablest business men and some of the most learned economists to aid him in planning a campaign to fight the depression. The plans evolved covered all lines of human endeavor. When they were completed, the President, as you will remember, called all the people of the United States to hear him in a radio address. He stated frankly that he did not hope to 'make a hit every time he went to bat.' So far, I think it fair to say that not a single foul has been struck. The first 'hit' was the bank holiday. Looking back, we must admit it was a master stroke. Most of you here today attended the bankers' meeting in Oklahoma City during the bank holiday last March. By comparing conditions then with what they are now, one can easily see the progress we have made."

"In conclusion, I am impressed with the thought that the economic problems of the 120,000,000 people of the United States are so vast and intricate that they stagger the imagination. Like other great problems, they should be handled by men of known ability and wide experience. That this can and will be done, I haven't the slightest doubt. Public opinion dominates the policies of our Government. It was public opinion that caused the repeal of the 18th Amendment. It is now public opinion that is driving our Government beyond the outposts of our old economic frontiers. We are blazing the way on an uncharted course to a higher, sounder and nobler civilization. It is, indeed, fortunate for this republic at this critical time in our history that we have a leader whose sole thought and purpose in guiding our ship of state is for the common good of all."

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An amplifying system has been installed in the House of Representatives, which will aid Speaker Rainey in making the gavel heard

U. & U.

—CONTINUED—

Realization in Washington

(CONTINUED FROM PAGE 18)

But this contradiction between drastic economy with the one hand and rather lavish outlay with the other is more reconcilable than some other contradictions which worked seriously against Mr. Roosevelt's program as a whole.

From the beginning he tried to keep in mind two objectives. The two objectives are, first, business recovery, and, second, a permanent change in the American system. This second objective is described by Mr. Roosevelt himself (in his address to Congress January 3 last) as "a permanent readjustment of many of our ways of thinking and therefore of many of our social and economic arrangements." Some of Mr. Roosevelt's subordinates—notably Donald Richberg, counsel of N.R.A., and Secretary of the Interior Harold L. Ickes, together with many of the "brain trust" and the "Frankfurter lawyers"—do not use Mr. Roosevelt's word "readjustment". The word these others use is "revolution".

When I seek to show how these two objectives neutralize each other, I find it difficult to put my finger on an example simple enough to be clear. Let us try expressing it this way: Mr. Roosevelt is attempting, at one and the same time, first to recover from the depression of 1929 and, second, to prevent the boom of 1939—or whatever is the year in which our next boom might naturally come. This latter purpose, to prevent the boom of five years from now or thereabouts, is only a small part of Mr. Roosevelt's second objective, which, he has said, is a "readjustment of many of our social and economic arrangements." But this narrow part of the second objective, preventing the boom of 1939, is simple to understand. It will be clear to every reader that actions taken to recover from the depression of 1929 are neutralized by actions taken to prevent the boom of 1939.

To express it another way, a business man who is being encouraged to invest more money and expand his business as a way of recovering from the depression is necessarily made fearful and therefore deterred when told by Mr. Roosevelt that there is something ahead, something vague and therefore the more fearful, which Mr. Roosevelt calls "permanent readjustment" and which Mr. Roosevelt's subordinates call "revolution". To a business man, to any one, the psychology of recovery is one thing, the psychology of "readjustment" is the opposite thing. The psychology of recovery is hope, the psychology of anticipated readjustment is fear. The second kills the first, the fear kills the hope.

Trust Department Examination

(CONTINUED FROM PAGE 25)

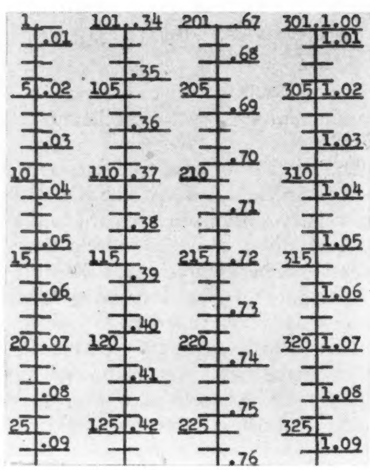
with 20 per cent of court trusts in the total of administered individual trusts, are given the same searching investigation as the court trusts in accordance with the laws of most states. This is a principle followed by the Comptroller's office in dealing with national banks, but practice among state banks, especially among non-member banks, in some cases allows rather wide latitude in the administration of trusts under contract. Since such trusts now involve assets of over $5,000,000,000 and are of increasing complexity in nature and conditions, the necessity for expert examination and control can be appreciated.

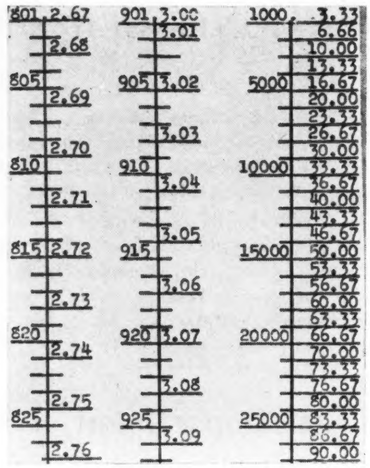
The new, combined, rather aggressive policy adopted by the Federal supervisory authorities in regard to the trust functions of banks reflects their intention of being certain that the trust departments are placed upon the same plane of soundness and efficiency as the authorities believe they have placed the banks of the country in their banking departments. There is also a general feeling that the trust business of the banks faces important changes.

These changes may not be altogether favorable since it is likely that the Securities Act and possibly the exchange control bill, if enacted, will reduce the volume of the business of the banks as trustees for corporate bond and note issues. Increases and decreases of the latter are a significant reflection of the country's long term industrial financing. The total volume of bond issues for which national banks acted as trustees in 1929 was $7,370,000,000. In 1930 it rose to a peak of $11,803,000,000. It fell to $10,719,000,000 in 1931 and to $9,497,000,000 in 1932 but rose again to $10,411,000,000 at the end of the last fiscal year before the Securities Act went into effect.

Quite Able to Sit Up and Take Notice

SYKES IN THE PHILADELPHIA PUBLIC LEDGER





At the left are shown a few sample columns of the table for computing the earnings allowance on accounts at 4 per cent. The table is ten columns wide. The tops of the first four columns and the last three are shown here. The columns headed 401, 501, 601 and 701 are omitted, and all the columns, of course, extend downward through 30, 35, 40, 45, etc., to the next $100

Earnings Allowance

MR. R. M. LONG of The Gary State Bank, Gary, Indiana, has worked out a table for computing the earnings allowance at 4 per cent on the analysis of accounts for service charges. The table consists of a series of vertical scales, each representing $100 and graduated into 100 parts. The interest at 1/3 of 1 per cent (a month's interest at 4 per cent yearly) is given in whole cents opposite the scale point representing the dollar amount on which that amount of interest was computed.

The whole table can be made on a typewriter after the computations, say up to $1,000, have been made. Above are two sections of the table, showing the tops of the first and last scales.

Stock Ownership

SOME 26,000,000 names are registered as owners of American companies, according to a survey of 225 leading corporations made by Frazier, Jelke and Company. While this number includes duplicates, it is believed that over 10,000,000 persons in America are holders of securities.

The report states, as illustration, that holders of the two most widely distributed stocks would equal the population of Nebraska, while a city the size of San Francisco would be required to accommodate the holders of American Telephone and Telegraph Company shares.

There are 25 corporations whose shareholders' lists contain more than 100,000 names, 37 have 75,000 or more, 57 have 50,000 to 75,000 stockholders and 96 are owned by from 25,000 to 50,000 persons.

"General Motors shares are registered in 351,761 names, equivalent to almost a quarter of the population of Detroit," the survey says. "Radio Corporation has 287,813 stockholders, United States Steel, 251,025, Pennsylvania Railroad 238,876 and Transamerica 222,590."

It is observed in the report that "anything which tends to reduce the liquidity, lessen the market worth or circumscribe the collateral value of stocks, directly affects the wealth and resources of the investments of about one-third of the population.

"It may be reasoned also that the purchasing power of about one-third of the population is affected by any Government policy which tends to limit profits and reduce the ability of corporations to pay dividends."

It is stated that "our great organized financial markets are of immeasurable value in promoting a wider distribution of ownership of big business."

Service Charges

The Small Depositor

To the JOURNAL:

IN an article, "Bank Service at a Fair Price," in your April issue, T. P. Cramer states:

The small depositor is not penalized. He is on the same basis exactly as the large depositor. Both pay for the service they receive. They may pay for it either by carrying sufficient balance or by a fee.

This is obviously untrue. Bank deposits arise both from bank loans and from the actual deposit of funds. Large accounts are more apt to consist, at least in part, of funds borrowed from the bank. It is patent that a bank can loan nothing on the basis of a deposit which has been borrowed from the bank. One cannot loan on the basis of a loan.

The small deposited deposits, on the other hand, are in part the basis for the bank's loans. To treat both types of deposits the same in service charging is unfair. The result is that service charges are, in many cases, more than twice what it would cost to borrow the whole minimum balance required to avoid the charge.

RICHARD A. LESTER
Princeton, New Jersey

Explanation to Customers

IN hundreds of banks in the country, new or changed service charge methods are being installed, and their success depends to a large extent upon the ability of officers and employees to make the reasons for them clear to customers.

As an example of how banks are handling this problem, the following excerpts from a recent bulletin sent by the Wachovia Bank and Trust Company to all members of the staff will be useful:

"The new regulations should be explained on their own merits, and we should not attempt to 'pass the buck' to the Code Committee, the North Carolina Clearing House or the local clearinghouse. The charges have been adopted because they are right, fair and absolutely necessary in order to reimburse the banks for services rendered.

"It is important to keep in mind that in the new schedule no discrimination is made against small accounts, all accounts, both large and small, are subject to the metered charge plan or a careful monthly analysis. Irrespective of the size of the account, if the bank is sustaining a loss in carrying it, a charge sufficient to cover this loss will be made at the end of the month. Furthermore, it is important to remember that only unprofitable accounts will be charged and that any depositor who does not wish to pay a charge can easily avoid it by building up and maintaining a reasonable balance. The new schedule, therefore, should promote thrift among our depositors, and in discussing service charges with our customers we should encourage them to build up their balances in the event that their accounts are likely to be charged under the new schedule. In the event that this is impossible, then the bank only requests that the depositor pay the actual cost of service rendered, which certainly is the only reasonable thing that can be asked."

Reasonableness of Charges

To the JOURNAL:

THE underlying principle in the Bankers Code, as well as the other codes, is that of cooperation—cooperation between the purchaser as well as the seller of goods and services.

The banks signing the Code are pledged to cooperate under a set standard of service charges. The services rendered by a bank are today being looked upon by the business man as something akin to the products he sells. He knows that his business would soon be ruined if he sold his goods at an unprofitable price; therefore, the depositor should be educated to a point where he will maintain a profitable account or else accept the service charge as inevitable.

Banks are semi-public institutions, and as such they owe to the small depositor the duty of providing banking facilities. But there is no reason why this service should be performed at a loss when by means of a service charge it can be performed without loss to the bank and with little expense to the depositor.

CLIFFORD ZOLLER
Manufacturers Trust Company Branch
Brooklyn, New York

Issues Eligible to Secure Circulation Until Maturity or Redemption

Amount Outstanding (Millions)	Issues	Maturities	On Deposit To Secure National Banknotes March 1, 1934
$49	Panama 2s	1936	$43,930,120
26	Panama 2s	1938	22,445,700
600	Consol 2s	Indeterminate	566,388,050

National Banknote Circulation

THREE significant factors point toward a material decline within the next few years in the volume of outstanding national banknotes, viewed by many as a vital and necessary bulwark in our complicated monetary structure.

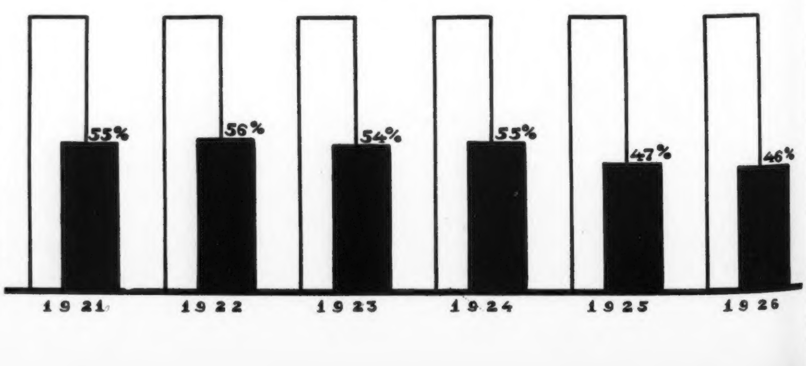
First, United States Government bonds, bearing at present the circulating privilege, will, before the end of 1938, be reduced by more than 90 per cent. Second, the apparent strong demand for United States Government bonds as an investment outlet is pushing the prices of these securities well above par, which is the value on which circulating notes are obtained. And third, return of confidence as a result of the introduction of the Federal Deposit Insurance Corporation and other measures is contributing in no small measure toward a general decline in money in circulation. These conditions are making it less attractive for the national banks to issue notes.

The decline in the volume of national banknotes had already set its pace in the early '20s. Despite repeated encouragement for national banknote issuance emanating from Washington in pursuance of Government easy credit policies, the circulation of these notes dropped from 8.8 per cent of all currency in circulation in March, 1922, to 7.7 per cent in April, 1926, and to 7 per cent in March, 1931. Similarly, the circulating notes dropped from 55.8 per cent of total paid-in capital of all the national banks in March, 1922, to 37.6 per cent in March, 1931, and from 3.6 per cent of total assets of all the national banks in March, 1922, to 2.3 per cent in March, 1931.

During 1932 and the early part of 1933 there was a substantial increase in national banknotes outstanding. But this increase, which was in line with that of all money in circulation, was checked soon after the banking holiday a year ago, and in May more bonds were withdrawn from the Treasury by banks reducing circulation than bonds deposited by banks increasing circulation. This trend has since been accelerated.

Any national bank may take out circulation up to the full amount of its

National banks may take out circulation up to the full amount of their paid-in capital. The ratio of outstanding national banknotes (black) to capital (white) decreased between 1924 and 1931, increased in 1932 and 1933 and is now again tending to drop



Issues Eligible to Secure Circulation Until July 21, 1935

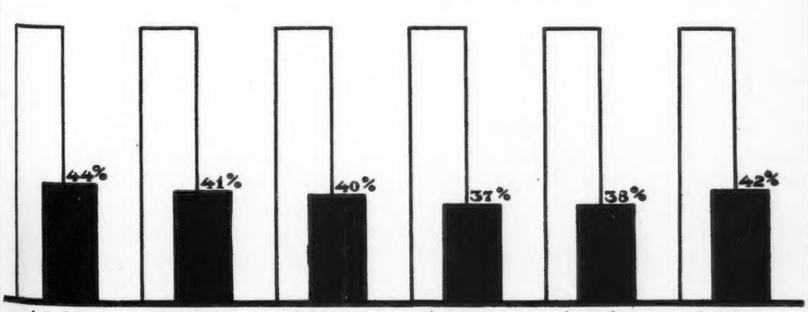
Amount Outstanding (Millions)	Issues	Maturities	On Deposit To Secure National Banknotes March 1, 1934
$454	Treasury $3\frac{3}{8}$s	1947/43	$30,402,000
353	Treasury $3\frac{3}{8}$s	1943/40	20,089,650
545	Treasury $3\frac{3}{8}$s	1943/41	42,305,900
834	Treasury $3\frac{1}{4}$s	1941/33	60,510,450
819	Treasury $3\frac{1}{8}$s	1949/46	46,996,650
755	Treasury 3s	1955/51	52,916,000
29	Conversion 3s	1946/47	1,020,000
50	Panama 3s	1961	1,000
1,000 (estimated)	Treasury $3\frac{1}{4}$s	1946/44	——

paid-in capital and equal in amount to the par value of United States bonds deposited with the Treasurer. Prior to the passage of the Federal Home Loan Bank Act the only bonds outstanding eligible to secure circulation were the 2 per cent Consols (consolidated) and the 2 per cent Panamas, as provided in the Act of March 14, 1900, and as amended on October 5, 1917.

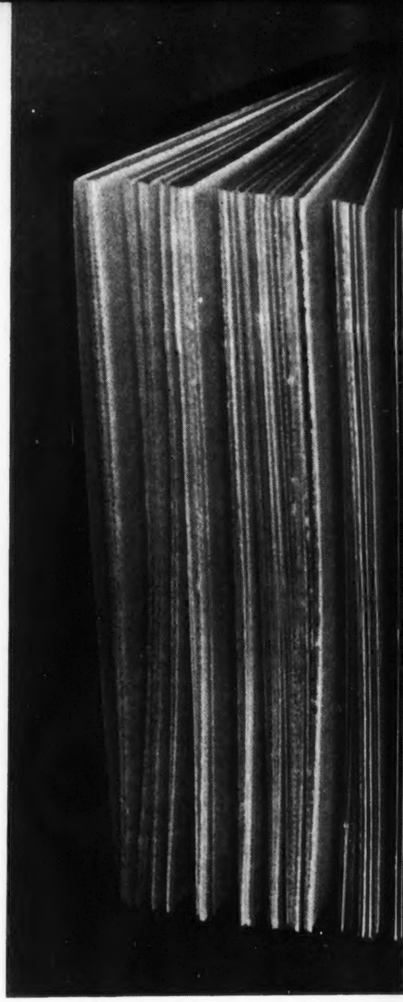
The Federal Home Loan Bank Act, which became law on July 22, 1932, extends the circulation privilege as follows, ". . . For a period of three years from the date of enactment of this Act all outstanding bonds of the United States heretofore issued or issued during such period, bearing interest at a rate not exceeding $3\frac{3}{8}$ per centum per annum, shall be receivable by the Treasurer of the United States as security for the issuance of circulating notes to national banking associations, and upon the deposit with the Treasurer of the United States by a national banking association of any such bonds, such association shall be entitled to receive circulating notes in the same manner and to the same extent and subject to the same conditions and limitations now provided by law in the case of 2 per centum gold bonds of the United States bearing the circulation privilege. . . . As used in this section, the word 'bonds' shall not include notes, certificates, or bills issued by the United States. . . ."

The United States Treasury $3\frac{1}{4}$ per cent bonds maturing in 1944–46, recently issued in exchange for called Fourth Liberty $4\frac{1}{4}$s, and 3 per cent Treasury notes maturing May 2, are "acceptable to secure deposits of public moneys, and will bear the circulation privilege only to the extent provided in the act approved July 22, 1932, as amended." A preliminary figure fixes the exchange at above $1,000,000,000.

It is seen that unless Congress extends the three year period ad interim, and this is thought unlikely, all but $675,000,000 par value bonds will become ineligible to secure circulation after July 21, 1935, and that unless converted in the meantime $49,000,000 of these remaining bonds will be retired in 1936 and $26,000,000 in 1938. This leaves only $600,000,000 par value bonds which may be redeemed any time on three months' notice.



A Stronger Banking System



ONE thing which stands out in clear relief is that we shall not enjoy the fruits of a strong banking system unless the ablest and most public spirited bankers insist upon high standards. Make-shift remedies will be of no avail. Up-to-date and workable laws are needed. An excellent place to begin would be a complete revision of the national bank act, which is now obsolete in many particulars. If this were done there is no reason to suppose that state banking legislation would lag far behind.

The point of view that we shall have better banking in the future is clearly advanced by William H. Kniffin in his recent book, *Better Banking* (McGraw-Hill Co., New York). The author predicts that we shall have "better bankers, better directors, better loans, better investment policies and better control of expenses." This book is presented in an interesting and readable style and is directed to the managerial side of banking. It is not intended to be a treatise on either banking theory or banking technique.

Many phases of bank management are dealt with, including such problems as reserve policy, loan and discount policy, the bond account, causes for bank failures and the Banking Act of 1933. The questions touch upon the heart of the management problem and will be read by many bankers with interest. Mr. Kniffin rightly emphasizes the desirability of making the banking business a profession. This, he realizes, is possible only by greatly raising the standards. The time has come for directors to take a more active part in the management of banks, and not a few might well begin by reading this book.

It is regrettable that the author did not go more deeply into problems dealing with the bank portfolio. This is such an important phase of banking that it warrants far more attention than is usually given to it. However, bankers will find this book helpful in dealing with problems of bank management, especially in connection with some of the more recent developments as advocated by the New Deal and the Banking Act of 1933.

MANAGED MONEY

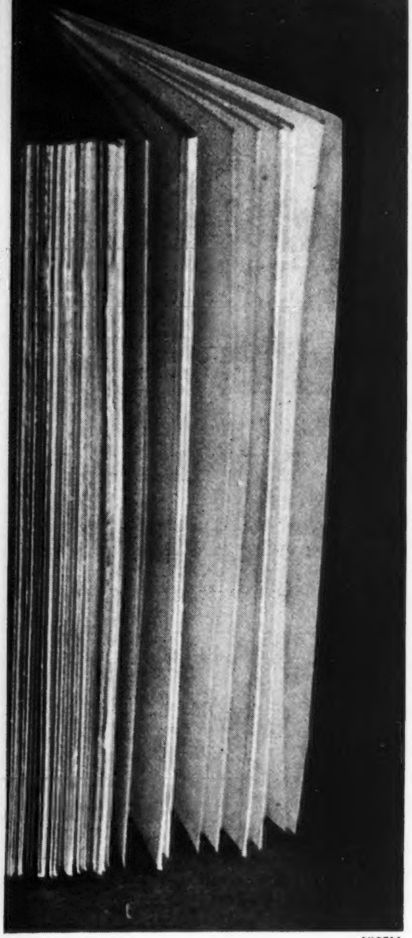
MANY supporters of the present monetary policy of this country have placed great emphasis upon the "currency experiment" in Sweden. Much confusion has existed regarding just what that experiment is and what relation, if any, it has to present monetary discussions in the United States. We are greatly indebted to Erik T. H. Kjellstrom for a very timely and important presentation of that experiment in *Managed Money, the Experience of Sweden* (Columbia University Press, New York). It is an illuminating analysis, and, as Professor H. Parker Willis points out in his foreword, "should have a wholesome influence in American monetary discussion." Mr. Kjellstrom deals with the subject from the Swedish point of view and, in so doing, gives us a refreshing picture of Swedish banking and foreign trade as a background for an understanding of what Sweden actually has been doing in her widely discussed "managed money" program. Economists, bankers and business men will find this book distinctly worth while. It is interesting to note that Sweden has insisted on maintaining her own credit standard and has not brought any pressure on the banks to lower their requirements.

According to the author, Sweden is the first country in economic history that has attempted to establish an independent monetary standard as a substitute for the gold standard. This standard, Mr. Kjellstrom contends, has served to maintain confidence in the future value of the Swedish currency, although the monetary program has not been an adequate means of lifting the country out of the mire of depression. This book should prove effective in clarifying the discussion of the money experiment in that country.

LASTING PROSPERITY

SINCE the beginning of the depression in 1929, numerous books have appeared purporting to explain the causes and remedies for this economic disturbance. A. G. McGregor, in *Lasting Prosperity*, (Sir Isaac Pitman & Sons, Ltd., London), says our "present plight and the Great War itself resulted almost solely from man's failure to match his great advance in invention and productive efficiency with a proper advance in economic and monetary sense." One of the most serious mistakes we have made in this country, he says, is found in the fact that we made a single commodity, gold, our standard of value and have given it a position of importance "beyond the power of exaggeration."

The cause of our trouble, according



ANGELL

Bank Management • New Trust Business

Swedish Currency • Prosperity Formula

Trust Year Book • London Exchange

to this writer, lies specifically in the fact that wage earners get too little for their labor and hence cannot buy the goods produced. This is followed by increased stocks on hand which, in turn, are accompanied by a decrease in production and an increase in unemployment. To overcome all this the solution is simplicity itself. His simplified formula for maintaining purchasing power of banknote currency is "increasing wages and salaries when wholesale commodity prices tend to decrease, and by decreasing wages and salaries when wholesale commodity prices tend to increase." The gold standard is a stumbling block to stability and prosperity. He adds, "If a nation would rid itself of depression for all time it must first emancipate itself from the gold fetish."

We do not share the enthusiasm of Mr. McGregor for his simple remedy. There are other factors to be taken into consideration. His arguments for producing this highly developed, utopian, lasting prosperity are unconvincing.

With all the interest displayed at this time in connection with amendment of the Securities Act and the regulation of the New York Stock Exchange, those interested in reform in the issue and sale of long term investment securities and the part played in the distribution of such securities by the exchanges will be interested in *The Book of the Stock Exchange* by F. E. Armstrong (Sir Isaac Pitman & Sons, Ltd., London). This is a very timely, interesting and valuable discussion of the stock exchange in London. Mr. Armstrong presents a very useful description of the operation and functions of that exchange and shows its relationship to trade and commerce through the making of a market for long term obligations.

JOHN M. CHAPMAN

Important Book on the Trust Business

The Evaluation of New Trust Business by Samuel Witting is a unique contribution to the trust business. It presents a concrete method for evaluation. Comprehensive actuarial tables permit the calculation of the present value of executorships, trusteeships and other types of new trust business. Hence banks and trust companies are offered a measuring rod to apply to the cost of obtaining new business in terms of the present-day value of the business secured. The book is the culmination of a study started by the Trust New Business Committee of Chicago Banks and Trust Companies in 1931.

The book is published by the author.

TRUST DIVISION YEAR BOOK

THE annual Year Book of the Trust Division, American Bankers Association, covering nationwide developments affecting the trust business during 1933–34, has just been issued.

The following topics are covered in this publication: the country's departure from the gold standard and the depreciation of the dollar; the new Federal Securities Act; the real estate mortgage situation; the trustee's enforced ownership of real estate under depression conditions; present-day relationships between life underwriters and trust men; changing values of legal investments—municipals, railroads, public utilities and mortgages; requirements of the new revenue laws regarding estate, gift and income taxes; defaults under corporate mortgages, for which statutes and trust instruments have made no provision; the Bankers Code, and the Statement of Principles of Trust Institutions incorporated in the Code.

Other New Books

Some of the important new books received recently by the JOURNAL are: *A Critique of the Gold Standard* by H. L. Puxley (Harper), *Do We Want Fascism?* by Carmen Haider (John Day), *2222 Retailing Ideas* compiled by Emanuel Lyons, *The New Capitalism* by James D. Mooney (Macmillan) and *On Our Way* by Franklin D. Roosevelt (John Day).

Bank Reviews

The Outline of Business, published by the Central United National Bank of Cleveland, has collected in its March issue a quantity of material on the business upturn in the United States. Data from Government sources, collected in *The Outline*, show outstanding recovery strength in the South, where activity is estimated, from check payment figures, to be 81 per cent higher in reporting cities than a year ago.

The New York Trust Company *Index* for April discusses Sweden, "a nation of marked economic stability." There are also articles on state and local debts and "the hotel industry".

Interest Rates

(CONTINUED FROM PAGE 27)

above the 1931 level, but it may be admitted that Federal financing since 1931 and at the present time is in a transitional stage, and there is not much doubt that, if present uncertainties as to monetary and fiscal policies were removed, the Treasury would be able to float long term issues without difficulty at rates close to if not the equal of the 3 per cent rate reached in 1931. It is not at all improbable that with such an abundance of funds now in the market, which commerce and industry will probably be slow in absorbing, the rate of 2½ per cent suggested by various authorities might be reached.

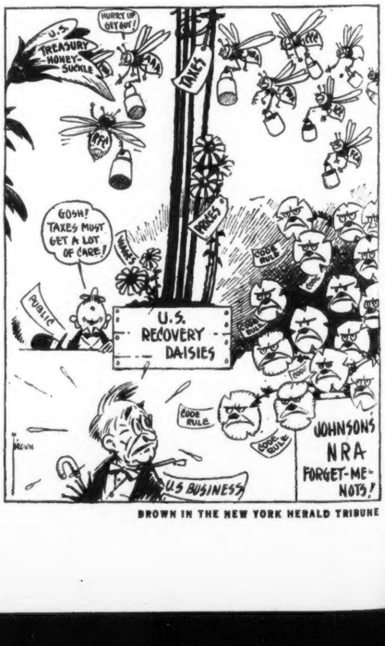
The principal uncertainty in the prospect is with respect to possible demand from commerce and industry for credit as the country recovers from the depression. There is every reason to anticipate that if the Government continues its borrowing when demand for business credit is revived, interest rates must go higher. It seems unlikely, however, that credit demand from business will become very strong until another year has passed, and if the Government can hold to its promises and balance its budget next year, or at least by the following year, this clash of credit requirements will be avoided. It is also to be considered that these very borrowings of the Government, under present monetary legislation, can be made the basis for more money and more credit. The species of inflation now in fashion works distinctly toward lower interest rates.

FOREIGN RATES

NOR are these policies peculiar to the United States. Easy money and lower interest rates characterize the policies of all the leading financial nations. The outstanding demonstration is the successful refunding of the £2,000,000,000 war debt of Great Britain from 5 per cent to 3½ per cent obligations a little over a year ago, this conversion covering about a third of the entire domestic funded debt of the nation. Similar refunding, although on a smaller scale, has been effected by France, Italy and various other European governments.

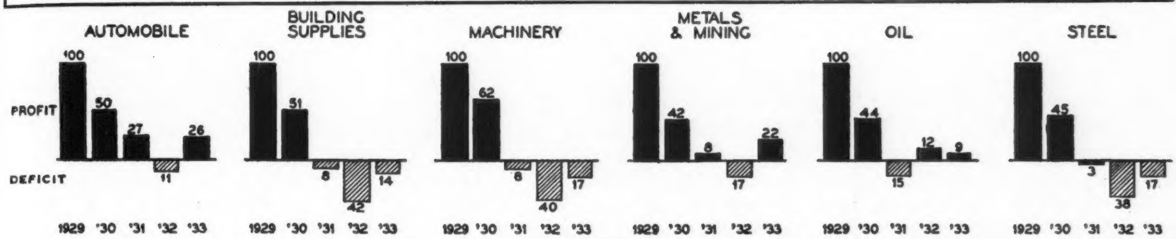
The most significant feature of the present trend in interest rates is that it is universal among nations whose financial position is such as to give credit factors free play. It is supported by governmental policies to a degree heretofore unknown, as a part of the world recovery program. It is subject to the same limitations and possible modification as the trend in the United States, but this unity of foreign conditions and policies with those in the United States gives an assurance of permanence to the latter which otherwise might be considered as due to domestic and temporary circumstances.

The Washington Flower Show



BROWN IN THE NEW YORK HERALD TRIBUNE

Net profits or deficits of industries (1929=100). From the Monthly Review of the 2nd Federal Reserve district



Better Planning, Not Less

To the JOURNAL:

I HAVE read with a good deal of interest "Less Planning Would Be A Good Plan" in the April JOURNAL.

The article in question is beguilingly written. But essentially it seems to be a plea for a return to the "automatic" laissez faire policy in business and finance that did not prevent our troubles, if it did not actually cause them.

The writer refers to the "whole American conception" as "a plan in the fullest sense of the word." By that he means the form of government devised by the founders of the nation, plus the adjustments, refinements and extensions that have been made in the intervening years. He admits that "there is absolute agreement everywhere that a more carefully planned and managed economy would be a good thing." But he insists that because there is no unanimity among the "principal planners," whoever they may be, no guarantee that succeeding "managers" will be as capable and conscientious as Mr. Roosevelt, and no certainty of permanency, we should stick to what he calls the "1776–1934 plan."

Now, I agree that in most respects our form of government has worked as well as the best of other liberal forms. But at the time it was formulated, there were sharp differences of opinion on some of the points it embodied. It was the work of no single individual. And its ideas were drawn from such widely varied sources as Montesquieu and Tom Paine. In short, it was a compromise. Not only so, but before its adoption none knew how it would actually work.

The important point is that the founders of the nation were not afraid to venture. And posterity has ever since applauded their courage. With such a heritage as that, we certainly ought not to be afraid to tackle our troubles manfully and try to work out such measures as will minimize the possibility of their recurrence.

Not less planning but better planning is the need. And the cooperation of men like the writer of the article in question can do much to insure that such adjustments as are determined upon shall be the best for the purpose.

HORACE W. O'CONNOR
Chicago, Illinois

Insurance Under F.D.I.C.

IN his recent address before the Executive Council of the American Bankers Association, L. E. Birdzell, General Counsel, F.D.I.C., speaking for Leo T. Crowley, chairman of the Federal Deposit Insurance Corporation, presented some interesting figures on the percentage of insured accounts under the present law.

In 13 states, according to his figures, the following ratios of insured deposits to total deposit liabilities prevail:

In banks with total deposits under $150,000, 78.34 per cent; in banks with total deposits between $150,000 and $500,000, 68.79 per cent; in banks with total deposits between $500,000 and $1,000,000, 64.49 per cent.

The grand average in banks with less than $1,000,000 in deposits in these 13 states is 67.38.

For the country as a whole, Mr. Crowley estimates that 37½ per cent of the total deposit liability is covered by insurance, that 55,600,000 accounts are protected and that more than 96 per cent of all depositors are fully insured.

There are at the present time 15 offices of the F.D.I.C. in the country, under the direction of supervising examiners, each with an adequate staff. The results of all examinations are transmitted to Washington, where they are handled by one of nine review examiners, each of whom is assigned a definite territory. Over the review examiner and the field examiner is one chief examiner. The corporation is at the present time organizing a new division to handle the details of opening new national banks to replace any institution which suspends operations. Only one occasion for its services has as yet appeared, a small Pennsylvania bank having been closed for examination and readjustment shortly after Mr. Crowley's address was delivered.

CAPITAL CLASSIFICATIONS

THE primary concern of the F.D.I.C. to date, Mr. Crowley stated, has been with the capital structure of various banks. Analyses have been made by the corporation and the Federal Reserve banks, as a result of which banks have been classified into four groups, the first of which includes those banks whose healthy ratio of capital to deposit liability is 10 per cent or better. Where this ratio does not exist, the corporation is urging local additions to capital or recourse to the R.F.C. In other cases, admittance to the fund has been made possible by increasing the capital structure, the R.F.C. lending its support.

Paying tribute to the value of the work of the American Bankers Association in promoting sound bank management, Mr. Crowley pointed out that this work should be continued with renewed vigor to develop proper earning powers. The reports of bank examinations afford an opportunity to review problems of management in the light of actual records and can well be utilized in achieving increased efficiency in operations. The progress which has been made in standardizing report forms increases the value of these examination analyses for comparative purposes.

Mr. Crowley stressed the need for unification of the banking system, the continuation for a year of the operation of the temporary insurance fund, and increased supervisory powers to assure competent management.

KEYSTONE

President Roosevelt's Advisory Review Board, headed by Clarence Darrow, has completed its preliminary study of code operation, drawing the conclusion that monopolistic trends have been developed, to the detriment of the small industrialist and business man. Detailed reports will follow this general one. The members of the board, from the left in the picture, are Messrs. Henry, Thompson, Darrow, Sinclair, Mann and Neal

Real Estate Mortgage Prospects

OF ALL the lessons taught by the depression, the lesson that there is much more to a real estate loan than a conservative appraisal is one of the most impressive ones.

Property undergoes constant change; improvements become obsolescent; neighborhoods alter in their characteristics; the value of the property, in the last analysis, depends upon the care and intelligence with which the owner handles it.

To develop ways and means by which mistakes due to the ignoring of these important factors may be avoided or at least minimized in the future, Henry Bruère, president of the Bowery Savings Bank, New York, recently suggested to a group of trust officers the value of cooperative measures, whereby group thinking and experience can be brought to bear on this problem.

In New York, he pointed out, the first step in this direction has already been taken through a series of mortgage conferences, the last of which was attended by several hundred officers of savings banks, insurance companies and trust institutions. It is hoped that, out of these meetings, plans will materialize for a pooling of useful information and experience with real estate, a uniform appraisal policy, common practice in the administration of loans and requirements regarding the records of borrowers. The conferences will also undertake a program in regard to amortization and standards for the upkeep of property, with the objective of eliminating those owners who have shown a lack of responsibility.

In Mr. Bruère's opinion, the most important factor in real estate loans is care in the selection of property owners and a stimulation of pride of ownership and community interest to overcome the peril of excessive depreciation of buildings and deterioration of neighborhoods.

The cure for real estate ills is not to be found in a gigantic mortgage refinancing operation by the Federal Government. Such a move would merely result in a further expansion in bureaucracy and vast losses for taxpayers. The remedy lies in putting a throttle on the development of new buildings and new areas until a definite need for their creation can be proved and in coordination to develop sounder practices and to prevent unjustified booms.

"Unemployed Bank Credit"

WHILE Jesse H. Jones has now expressed his belief that banks are making genuine efforts to extend loans, the points raised in the following letter still merit consideration.

To the JOURNAL:

It seems to me it would not be a bad idea for someone to reply to the article in the American Bankers Association JOURNAL by Jesse H. Jones, under the title of "Unemployed Bank Credit".

There is no doubt about Mr. Jones' sincerity and maybe there are many banks deserving his criticism. I am wondering, however, whether some of his statements are not overemphasized.

I have no respect for the so-called selfish banker—the man who uses his institution for his own personal gains. But in my banking experience (and I have had 35 years of it), meeting hundreds of bank men, I have never come in contact with such a person. No doubt there are some, and no doubt Mr. Jones has these men in mind when he says, "bankers have not as yet taken their place in the great effort towards reconstruction in which President Roosevelt is engaged." But he cannot include *all* the bankers.

Mr. Jones would have the banks loan money rather than buy securities. Are there many bankers who wouldn't? He says, "working capital . . . is sadly lacking." Whose fault is it? Banks have more money than they know what to do with. Isn't it the borrowers that are lacking—not the capital? People don't borrow money just for the fun that it provides. Nor do they borrow just to increase the bank's profits by way of interest. How many corporations or individuals want to borrow money unless they can make a profit by doing so?

And how can Mr. Jones' argument apply to many of the banks in the small towns of the country? Who are the borrowers in a small-town bank, for instance? A few industries, a limited number of merchants and fewer investors, more visionary than practical. Banks hold depositors' money in trust. Bankers cannot afford to take unnecessary chances. Loans cannot be made to everyone who applies. The banker has at least two things to consider when application for a loan is made. Is the borrower capable of paying the loan if necessity compels the bank to ask for the return of the money? And is the loan really for a legitimate purpose, or to further some flighty idea? At all times the banker must remember that he is loaning his depositors' money and not his own. What banker wouldn't be imposed upon if he asked no questions in making loans? Every banker knows of some of his so-called respectable citizens—little business men—sitting up nights gambling their own funds and willing to borrow money from banks to continue their game.

Then, too, if bank examiners were not so suspicious and particular they wouldn't make so many demands upon the banks to have their borrowers' lines reduced. In expanding credit Mr. Jones should not forget the attitude of the banking department and the bank examiner and the demands made by them upon the banks, who may be doing their utmost towards the reconstruction in which the President is engaged.

FRED R. MOSELEY
Cashier, The Merchants Bank
Gallup, New Mexico

KEYSTONE

Albert Gallatin

Gallatin Memorial

A COMMITTEE of prominent New Yorkers under the chairmanship of James H. Perkins, chairman of the board, National City Bank of New York, is at work to raise funds for the erection of a statue of Albert Gallatin, Secretary of the Treasury from 1801 to 1813, on the steps of the Treasury Building at Washington alongside that of Alexander Hamilton.

Congress has appropriated $10,000 for the site and about four-fifths of the necessary $25,000 has been subscribed. J. E. Fraser, sculptor of the Hamilton statue, has been retained to execute the Gallatin Memorial.

Coming to the Colonies from Switzerland, Gallatin's first appearance in public life was as a member of a convention in 1789 to revise the constitution of Pennsylvania. Afterwards, on the completion of his third term in the Federal House of Representatives, he was appointed Secretary of the Treasury by Thomas Jefferson and held that position for twelve years.

The present members of the committee besides the chairman are Louis Wiley, vice-chairman; Allen Wardwell, treasurer; Stephen Baker, Perry Belmont, R. Fulton Cutting, Dr. H. W. Chase, John W. Davis, Charles E. Hughes, Russell C. Leffingwell, Gates W. McGarrah, Frank L. Polk, Myron C. Taylor, Gen. J. G. Harbord, Newcomb Carlton, Thomas J. Watson, Ogden H. Hammond, James R. Sheffield, Percy H. Johnston, Harvey D. Gibson, Earl D. Babst, William T. Dewart, P. A. S. Franklin, Samuel W. Reyburn, George L. Harrison, Walter E. Frew, Marshall Field and John M. Schiff.

The committee maintains an office at 15 Broad Street, New York City.

Unused R.F.C. and Bank Credit

THE belief that bankers were failing to seek loan fields actively was given its most emphatic official utterance by Jesse H. Jones before the New York State Bankers Association last February. "The common cry almost everywhere is that the banks are not lending," said Mr. Jones, who also stated that bankers could not continue to sit on the sidelines, waiting for complete recovery and assured values.

Later, in the March JOURNAL, Mr. Jones wrote that "the banks and bankers of the country have as yet not taken their place in the great effort toward reconstruction in which President Roosevelt is engaged."

On April 2 Mr. Jones said, "Conditions are better, business is improving, there is more money available at the banks and borrowers are not seeking loans in the volume that had been anticipated." He indicated that by that time the banks were at last looking for opportunities to lend their funds.

At the same time Mr. Jones disclosed that the R.F.C. itself has unused lending power to the extent of $1,000,000,000, with repayment of loans continuing at a rapid rate.

Up to April 1 the corporation had authorized the purchase of bank stocks amounting to $1,061,234,000 from 6,452 banks. Actual purchases were $593,578,000 in the stocks of 2,697 banks.

Soon after Mr. Jones' report on Government funds abegging, it was pointed out as a sign of renewed vigor of banks in the loan field that "notes discounted" by the Federal Reserve banks showed a rise of $2,000,000. This rise, however, occurred in discounts secured by Federal obligations, and in the particular Reserve report in question there was a decrease of about $1,000,000 in "other bills discounted".

ANGELL

CONVENTION CALENDAR (1934)

A. B. A. Meetings

June 11–14 A. I. B. Convention, Washington, D. C.
Oct. 22–25 A. B. A. Convention, Washington, D. C.

State Associations

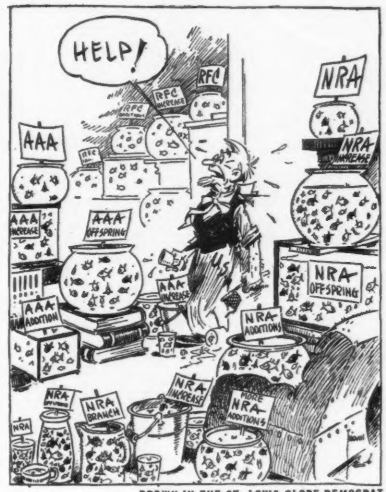
May 8–9 Arkansas Bankers Association, Little Rock.
May 8–9 Oklahoma Bankers Association, Tulsa.
May 8–9 Tennessee Bankers Association, Knoxville.
May 15–16 Mississippi Bankers Association.
May 15–16 Missouri Bankers Association, Excelsior Springs.
May 15–17 Texas Bankers Association, Dallas.
May 17–18 Alabama Bankers Association, Birmingham, Tutweiler Hotel.
May 17–18 Kansas Bankers Association, Wichita.
May 17–19 New Jersey Bankers Association, Ambassador Hotel, Atlantic City.
May 18 New Hampshire Bankers Association, Manchester.
May 21–22 Illinois Bankers Association, Abraham Lincoln Hotel, Springfield.
May 22 Maryland Bankers Association, Southern Hotel, Baltimore.
May 23–25 California Bankers Association, Del Monte.
May 23–25 Pennsylvania Bankers Association, Traymore Hotel, Atlantic City, N. J.
May 24–25 Georgia Bankers Association, Albany.
May 24–25 Indiana Bankers Association, Claypool Hotel, Indianapolis.
May 28–30 District of Columbia Bankers Association, White Sulphur Springs, W. Va.
June 7–8 Minnesota Bankers Association, St. Paul.
June 7–9 Virginia Bankers Association, Cavalier Hotel, Virginia Beach.
June 8–9 Massachusetts Bankers Association, New Ocean House, Swampscott.
June 8–9 West Virginia Bankers Association, New Greenbriar Hotel, White Sulphur Springs.
June 11–12 New York Bankers Association, Saranac Inn, Upper Saranac.
June 15–16 Colorado Bankers Association, Hotel Antlers, Colorado Springs.
June 15–16 Idaho Bankers Association, Boise.
June 15–16 Utah Bankers Association, Bryce Canyon.
June 18–19 Oregon Bankers Association, Gearhart.
June 18–20 Iowa Bankers Association.
June 19–20 Wisconsin Bankers Association, Milwaukee.
June 20–22 Michigan Bankers Association, Grand Rapids.
June 21–22 Washington Bankers Association (Tentative).
July 2–4 North Dakota Bankers Association & South Dakota Bankers Association (joint convention), Deadwood, S. D.

Other Financial

May 3 New Jersey Savings Banks Association, Caldwell.
May 16–18 National Association of Mutual Savings Banks, Waldorf-Astoria, New York, N. Y.
June 4–6 Reserve City Bankers, Sky Top Lodge, Sky Top, Pa.
June 11–15 National Association of Credit Men, Los Angeles, California.
June 25 National Association of Real Estate Boards, Minneapolis, Minnesota—1 week.
July 22 American Bar Association.
Sept. 10 Maine Savings Banks Association & Massachusetts Savings Banks Association (joint convention), Mansion House, Poland Springs, Maine.
Sept. 10–13 Financial Advertisers Association, Hotel Statler, Buffalo, N. Y.
Sept. 17–19 Morris Plan Bankers Association, Westchester Country Club, Rye, N. Y.

ORR IN THE CHICAGO TRIBUNE

Our Wicked Past



BROWN IN THE ST. LOUIS GLOBE-DEMOCRAT

Someone Gave Him a Few Tropical Fish

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As required by the Securities Act of 1933, the American Bankers Association Journal states that all of its advertising, including financial, is sold and billed at prices specified in its advertising rate card, copy of which is always available on request.

Bank Clerks of 1903

THIS concerns, not the A. I. B. Convention to be held in Washington, D. C., June 11–14, but a memorable occasion 31 years ago when the American Institute of Bank Clerks, which later became the American Institute of Banking, held its first annual convention. Delegates numbering 114 met in Cleveland, September 18 and 19, 1903, and the picture at the top of this page was taken at that time.

The careers of many of the delegates to this 1903 convention provide the best possible proof of the value of the broad training supplied by the Institute. It is necessary to mention only a few of the young men in the picture who later achieved success.

John H. Puelicher, President of the Milwaukee Chapter at the time of this convention, became secretary of the Wisconsin Bankers Association two years later; was elected president of the Marshall and Ilsley Bank in 1920 and served as President of the American Bankers Association in 1922–1923.

Fred I. Kent, who was a Chicago bank clerk at the time of the convention, became vice-president of the Bankers Trust Company of New York in 1909. He was deputy governor of the New York Federal Reserve Bank, 1917–1918, and directed foreign exchange transactions for the Federal Government during the war and again in 1933.

Charles W. Dupuis, after a start as messenger for the Western Bank of Cincinnati, became cashier of the Second National Bank of the same city within ten years from the date of this meeting and is today president of the Central Trust Company and director of a dozen large industrial and transportation organizations.

Among others in this picture who have risen to prominence in banking are E. H. Cook, now vice-president of the Bank of New York and Trust Company; Henry Holt, vice-chairman, Hartford National Bank and Trust Company; J. C. Fenhagen, chairman, discount committee, Baltimore National Bank; R. W. Shelter, vice-president, Manufacturers Trust Company, New York; G. H. Tomlinson, vice-president, State Bank and Trust Company, Evanston, Ill.; G. A. Harrington, trust officer, Rhode Island Hospital Trust Company; and Alex Miltenberger, president, Tower Bank St. Louis. This by no means completes the list. There are many others.

Save

To The JOURNAL:

A large item of cost in operating a bank is stationery and supplies, particularly the special forms used in various departments. It has been my recent experience that a tremendous saving can be instituted in this cost factor.

For example:—In our Accounts Analysis Department we use approximately 2,500 work sheets each month. We have been buying these sheets from a small concern which has a reputation for underselling the large producers of bank forms. Nevertheless, these stock forms cost us $7 per thousand. By designing a new form better suited to our individual needs, and having them lithographed by a local firm, these forms can be had for $1.67 per thousand. This amounts to a saving of $160 a year on one form in one department. The possibilities of additional savings are tremendous. Thus a bank cannot only save itself considerable money, but can get forms to fit its individual needs, a combination of benefits altogether desirable.

R. M. LONG

The Gary State Bank
Gary, Indiana

"Certain short-cuts may have occurred to you, may be in effect in your bank. . . What are these ideas? . . . Send them along to the JOURNAL, *as plainly and briefly presented as possible, and we will be glad to pay you for them, giving full credit to their origin."— From the March* JOURNAL